

**DIFFERENTIATION STRATEGIES OF
KOREAN DEPOSIT MONEY BANKS
TO SUSTAIN A COMPETITIVE ADVANTAGE
IN THE HOUSEHOLD SAVINGS MARKET**

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***** ABSTRACT *****

Competition among financial institutions in Korean household savings market (HSM) has become severe. Deposit money banks (DMBs) which have occupied the main prop of the Korean financial system have entered turbulent times mainly due to the relaxation of financial regulations which artificially provide a stabilized market environment, as well as the out-performance of non-banking financial institutions (NBFIs). Also, Korean households are becoming better-educated, more sophisticated and richer in line with the increase in wealth of the nation. The market share of DMBs in HSM has gradually declined, but that of NBFIs has continuously increased.

Consequently, DMBs are required to do something in the market in order, at least, to survive. As the first step, they should have a clear picture of the external environments which can dictate or affect their operations, along with the full understanding of their internal capabilities. Based on the conditions of external environments and internal capabilities, DMBs have to choose one of the 5Ds (ie. disinvestment, de-escalation, do-nothing, development or diversification) as their strategic direction in the market they serve. However, no matter which strategic direction DMBs choose, they are required to differentiate themselves from their competitors in order to support successfully the implementation of a strategic direction chosen and to achieve competitive advantages in the market they serve.

In differentiating themselves from others, DMBs will encounter somewhat different aspects from those firms which produce and sell physical goods mainly due

to the characteristics (ie. intangible, inseparable, heterogeneous, perishable and non-owned) of their products. Therefore, DMBs have to use the extended 7Ps in order to overcome the problems caused by the unique characteristics of their products and to differentiate themselves from their competitors effectively in the market. However, the discretion of Korean DMBs to implement the extended 7Ps in the market has been so strictly restricted by the regulation that they can not exercise their full capabilities in the market, and they have a passive attitude towards the implementation of strategies in order to differentiate themselves from others.

However, the results of this research - mainly based on the study of the financial systems and regulations of Korea and of households as customers of FIs-HSM, and the surveys for FIs-HSM and Korean households - show the possibility that DMBs can achieve competitive advantages effectively in HSM by differentiating themselves from their competitors, be they other DMBs or NBFIs in HSM. DMBs can freely use some components (ie. promotion, physical environment, personnel as a participant, process) of the 7Ps in the market even though other components (ie. product, price, place) of the 7Ps have strictly restricted use in the market at present. Besides, all components of the 7Ps will be sooner or later free to use for differentiating themselves in the market in accordance with the relaxation of financial regulations. As a conclusion, DMBs have to utilize their capabilities fully in order to achieve competitive advantages in the market and to prepare for future changes in the market by conducting the continuous R&D and market research.

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***** GLOSSARY *****

ANOVA	: analysis of variance
BOK	: Bank of Korea
BOKA	: Bank of Korea Act
CCs	: credit co-operatives
CDs/ATMs	: cash dispensers and automatic teller machines
CDs	: certificates of deposits
CMA	: cash management account
DMBs	: deposit money banks
EFTPOS	: electronic funds transfer at point of sale
FIs-HSM	: financial institutions in the household savings market
GBA	: General Banking Act
GNP	: growth national product
HSM	: household savings market
IFCs	: investment finance companies
ITCs	: investment trust companies
LBs	: local banks
MOF	: Minister of Finance
MSFCs	: mutual savings and finance companies
NACF	: National Agricultural Co-operatives Federation
NBBs	: nation-wide base banks
NBFIs	: non-banking financial institutions
NCBs	: nation-wide commercial banks
NFFC	: National Federation of Fisheries Co-operatives
NLCF	: National Livestock Co-operatives Federation
OBSE	: Office of Bank Supervision and Examination
SPBs	: specialized banks
TPGA	: tax preferential general account

***** CHAPTER ONE *****

INTRODUCTION

Korean deposit money banks (DMBs)¹, as the main financial institutions in the household savings market (FIs-HSM), have traditionally been situated in heavily regulated and protected environments in the household savings market (HSM). Therefore, they have operated in the stabilized market environments in virtue of the artificial balance created in HSM by the regulatory authorities so that they could keep on having some level of profits without their maximum efforts. Additionally, there has chronically been an excessive demand for funds from enterprises and households.

However, the environments in which DMBs are operating have rapidly and dramatically changed due to the effects of the world-wide trend of financial deregulation which speeds up the relaxation process of financial regulation of Korea and due to the pressure of the foreign countries (eg. USA, European countries), as the nation's trading counter-parts, to open the heavily protected financial market which seems a potentially lucrative market. In line with these, the government has started to relinquish, little by little, the management control of financial institutions in order to boost the autonomy of DMBs and ultimately to increase the competitiveness of DMBs in the market they serve. The adaptation of the new

¹ : These include all banks allowed to accept deposits (Klein 1989, p. 45). In Korea, deposit money banks comprise of 11 nationwide commercial banks, 10 local banks, 69 foreign bank branches in Korea, and 6 specialized banks at the end of 1990.

technology by financial institutions can not only provide new market opportunities for the existing financial institutions in the market, but also help to break down historic demarcations and entry barriers to the market (Crawley 1982). In addition, Koreans have become well-educated, sophisticated and rich in line with the increase in the nation's wealth. Therefore, they have increasingly required the diversified financial services, and many new financial institutions have been added to the market accordingly.

Consequently, severe competition not only with the existing financial institutions but also with the new entrants in the market has occurred. Now DMBs can not relax in an atmosphere of non-competitiveness, and are required to react effectively and properly in order, at least, to survive.

1.1. THE OBJECTIVES OF THE RESEARCH

Broadly, this research intends to review the overall pictures of the operations of FIs-HSM, especially of DMBs. The main reasons are, first, to enhance the competitiveness of DMBs in HSM in a period in which the market share of DMBs has gradually declined. Second, this research intends to provide the financial policy makers of the government with the overall pictures of the operations of FIs-HSM in order to make a proper financial policy which can bound the operations of DMBs, as well as other FIs-HSM. Third, this research intends to satisfy household customers with better financial services through better understandings of their preferences and expectation in HSM in order to mobilize households' funds effectively into enterprises, to contribute to the further economic development of the

nation, and to increase social-welfare. In addition, it is expected that this research can provide some useful information for foreign financial institutions considering entrance into the Korean financial market.

As a direct objective, this research aims to enhance the competitiveness of DMBs in HSM through proper strategic thinking in a period in which the market share of DMBs has been gradually eroded by other FIs-HSM. In order to achieve the overall objective, first, this research introduces the strategic frameworks which can be applied by DMBs, as well as any other firms, on the formulation of effective competitive strategies based on the differentiation of themselves from others. Second, this research studies the operations of FIs-HSM and the attitude and preferences of Korean households as customers of FIs-HSM. In order to fulfil the research objectives aforementioned, this research starts with the following hypotheses.

1.2. THE HYPOTHESES OF THE RESEARCH

Hypothesis is a pre-essential part of conducting any research and of constructing any questionnaire, as Herbert (1990, p. 8) said "hypotheses advance knowledge by helping the researcher to confirm or disconfirm theory". The grand hypothesis of this research is that "any of DMBs can not achieve competitive advantages effectively in HSM it serves by differentiating itself from its competitors, either other DMBs or NBFIs in HSM." In order to support the verification of the grand hypothesis, the researcher adopts the following five hypotheses as the main prop of this research :

[Hypothesis one] : DMBs are operating in the fully saturated market conditions of HSM.

[Hypothesis two] : Households with different demographic backgrounds (eg. age, income, occupation, education level, resident place) have different attitudes and preferences in HSM.

[Hypothesis three] : DMBs do not seriously consider the market conditions of HSM as the first step of building competitive positions in the market.

[Hypothesis four] : All DMBs are totally homogenized with each other in their operations in HSM, so they can be seen as the same (but having different names and locations) from the viewpoint of households.

[Hypothesis five] : There are not many differences in operations between DMBs and NBFIs in HSM, except artificial demarcations imposed by the regulations for the range of savings (and related) products, interest rates and the number of distribution channels.

Based on the five hypotheses, this research is wholly framed, and the two sets of questionnaires are constructed to investigate both the operations of DMBs and NBFIs in HSM, and the attitudes and preferences of households as customers of DMBs in HSM.

1.3. THE FRAMEWORKS OF THE RESEARCH

Research can take the form of an exploratory, a descriptive or an analytical method² (Hartman and Hedblom 1979). This research adopts an analytical method based on an exploratory and a descriptive method. This research consists of eight chapters following this chapter.

² : An exploratory research is a process of discovering the most general information about a research problem generally through a literature review, consulting with experts and case studies. A descriptive research describes, rather than analyses, information (or data) by reducing large quantities of numbers to a manageable and understandable (eg. summary) form. An analytical research seeks inter-relationships between dependent and independent variables based on theories, concepts and measurements in an exploratory and/or a descriptive research.

Chapter two begins with the review of the definitions of strategy, the understanding of the complexity of a firm, the analysis of competitors and market structure, and the review of external environments and internal capabilities which can influence or dictate the development of strategies of a firm. Thereafter, as strategic directions, the 5Ds (ie. diversification, development, do-nothing, de-escalation and disinvestment), one of which all firms have to choose in the market they serve, are presented. However, regardless whichever strategic direction adopted, the differentiation strategies, which a firm is required to adopt to differentiate itself from its competitors throughout this process for achieving continuous competitive position in the market, are argued.

A firm is required to capitalize its strategies effectively in order to differentiate itself from its competitors in the market. Therefore, chapter three tries to understand the main characteristics of bank services and their implications in the process of differentiation. The descriptions of methods of differentiation based on the proper exercise of the extended 7Ps (ie. product, price, promotion, place, physical environment, participants and process) are followed.

Chapter four presents a clear picture of the Korean financial system centring on FI-HSM and the regulations imposed on the operations of FI-HSM, based on the regulations about (a) establishment and paid-in capital, (b) ownership and management, (c) activities, (d) interest rates, and (e) reserve requirements.

Chapter five reviews the matters of who customers are, why customers save, how customers save, and which factors influence customers' savings. In addition, customers' ability to save and their willingness to save are studied.

Chapter six deals with the methodologies adopted in formulating the two sets

of the questionnaires for surveying the households and FI-HSM, and in the practice of sampling and field work. The statistical methods adopted for analyzing the data collected from the surveys are also dealt with.

Chapter seven presents the findings from household survey and FI-HSM survey. Chapter eight tries to generalize the results of the finding from the two sets of surveys.

Finally, chapter nine begins with the summary of this research. It continues with the verifications of the hypotheses and conclusions based on the results drawn from the research as well as limitations of the study. In view of the findings, some suggestions for further research in the future are also made.

1.4. THE SIGNIFICANCE OF THE RESEARCH

As far as the researcher knows, this research is a pioneer of providing strategic frameworks for Korean DMBs in HSM by giving a guidance of effective differentiation strategies. Therefore, it is hoped that the findings of this research can shed some additional light on problems faced by DMBs, and enhance the competitive positions of DMBs by providing DMBs with a whole picture of the market they serve. Besides, this research can contribute to providing Korean household customers with better financial services, and to increasing customers' welfare and indirectly the pace of national economic development. In view of the findings of this research, financial policy makers in Korea can have a clear picture of the operations of FI-HSM, as well as of the attitudes and preferences of household customers in HSM. Information generated by this research can be used

as the sources of secondary data for the future researchers who are interested in the operations of DMBs in Korean HSM and Korean households as customers in HSM.

***** CHAPTER TWO *****

COMPETITIVE STRATEGY IN THE MARKET

This chapter deals with the basic ideas used for developing competitive strategies which all firms - including DMBs - should adopt in order to gain and sustain competitive advantages in the market they serve. Accordingly, this chapter starts with a definition of a competitive strategy, and then finishes with explanations of the 5Ds which are developed by the researcher as strategic directions of firms in the market they serve, and of differentiation strategies adopted as the basic competitive strategies of all firms in the market.

2.1. THE DEFINITIONS OF STRATEGY

Every firm has a competitive strategy which may be explicit and/or implicit. A strategy can be viewed as new decision rules and guidelines in the development process, either active or passive, of a firm. A firm can exploit opportunities, as well as tackle threats, which may arise in its business environments through a proper strategic planning (Taylor 1977). Comprehensively, Thompson and Strickland (1978) defined a strategy as "a comprehensive description of an organization's master plan for achieving its goals, objectives, and purpose¹". On emphasizing

¹ : Thompson and Strickland (1978, p. 15) defined purpose (or mission) as "what the organization should be doing and why it exists". It specifies exactly what the firm's business is or is to be and the kind of firm it is or is to be. Objectives specify the action commitments made to achieve an firm's

strengths of a firm on the implementation of a strategy, O'Shaughnessy (1988) defined a strategy as "how the firm's strengths are to be deployed to overcome resistance to the achievement of objectives". In relation to objectives and a strategy, Greenley (1989) simplified and clarified objectives as "what is to be achieved" and a strategy as "how they are to be achieved". Therefore, objectives should be measurable, achievable, realistic and communicable (Luffman et al. 1987).

Michael Porter (1985) defined a competitive strategy as "the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs", and its aims as "to establish a profitable and sustainable position against the forces that determine industry competition". On emphasizing a sustainable advantage over Porter's definition of a competitive strategy, Coyne (1986) defined a competitive strategy as "an integrated set of actions that produce a sustainable advantage over competitors". Describing a firm, its competitors and the customers as collectively "strategic triangle" in the market, Ohmae (1982) defined a strategy as "the way in which a corporation endeavours to differentiate itself from its competitors, using its relative corporate strengths to better satisfy customer needs". Along with that, Coyne (1986, p. 55) argued that a competitive advantage is only obtained and sustained when all of the following conditions are met : "(a) customers perceive a consistent difference in important attributes between the producer's product or service and those of his competitors, (b) that difference is the direct consequence of a capability gap between the producer and his competitors, and (c) both the difference in important attributes and the

purpose and the long-range results the firm seeks to bring about through its activities. Goals are the desired short-term performance targets which a firm desires to attain in progressing toward its objectives.

capability gap can be expected to endure over time".

A successful strategy ensures a better or stronger matching of the strengths of a firm to customers' needs than those of its competitors. To be effective, a competitive strategy of a firm should focus on meeting the needs and wants of its target customers, offer a clear sense of what it provides, communicate easily with customers, differentiate itself from competitors, motivate those who work, be flexible enough to adopt unforeseen contingencies, and be difficult to imitate.

To sum up, a competitive strategy can be defined as the search of a guideline for a firm's actions to keep on its survival from the changing competitive external conditions, and then to achieve its business purpose by properly deploying its internal capabilities. It can be said, to some extent, that any firm (except a firm enjoying a monopoly) selling its product(s) at a profit can enjoy a competitive advantage with those customers who choose to buy from the firm instead of its competitors, even though its competitors may have superior strengths (eg. product quality, distribution power).

2.2. UNDERSTANDING OF A FIRM

An old Oriental proverb said that "knowing myself and then understanding others is the best way to success". In line with the proverb, the starting point of formulating a competitive strategy is to understand the activities of a firm wholly. A firm will belong to one of the following three groups. These are single business firms, multi-business firms with a single dominant business, and diversified firms with a product portfolio consisting of multiple business with no dominant business

(Kerin et al. 1990). Nevertheless, different firms categorized into different groups compete with each other for the same customers in the same market. Of FIs-HSM, for example, some (eg. credit cooperatives) deal exclusively with household customers, and others (eg. banks) deal with not only household customers but also corporate customers. Firms in the same market may also offer different range of products to the same customers.

2.2.1. THE COMPLEXITY OF A FIRM

Clifford and Cavanaugh (1986) described the degree of complexity of a firm's activities in terms of ten variables grouped under three broad classifications such as product complexity, market and operating complexity, and environmental complexity as shown in table 2-1. Based on the ten variables, the complexity of each activity within a firm can be classified into one of the four degrees (low, moderate, substantial and high). Activities of a firm may be located in the ten variables with a different degree of complexity. For example, a firm may provide several related products and/or some unrelated products in limited areas through only one distribution channel. Therefore, it is not easy to say which degree of complexity a firm may be operating in.

Generally the complexity of a firm can be measured by comparing its activities with activities of other firms in the same industry and/or different industry. If complexity is low, a firm is more likely to be intuitively (and informally) managed through personal knowledge and intensive individual involvement. However, with increasing complexity, all of the firm's activities should

be implemented, coordinated and controlled systematically (Kerin et al. 1990).

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 [Table 2-1] The Complexity Degree of A Firm's Operating

PRODUCT COMPLEXITY	DEGREE OF COMPLEXITY			
	LOW	MODERATE	SUBSTANTIAL	HIGH
NUMBER OF PRODUCTS	Single line	Several related	Several related some unrelated	Diverse and complex
COMPLEXITY OF TECH./ INDIVIDUAL PRODUCTS	Simple design	Multiple components	Highly intricate, technic.sensitive	Complex systems
DEGREE OF FORWARD/ BACKWARD INTEGRATION	None	Partial, one step	Extensive, more than one step	Highly integrated
RATE OF INNOVATION - TECH., PRODUCT, PROCESS	Slow	Slow to moderate	Moderate to rapid	Rapid

MARKET/OPERATING COMPLEXITY

GEOGRAPHIC SCOPE - PRODUCTION	Single location	2-3 locations	Many domestic, some overseas	International
GEOGRAPHIC SCOPE - MARKETING	Regional	National	National, significant export	International
DISTRIBUTION CHANNELS	Single	2-3	Several	Multi., complex
END-USER GROUPS	Single, well defined	2-3	Several, distinct	Multiple, diverse

ENVIRONMENTAL COMPLEXITY

COMPETITIVE INTENSITY (pri.prod.marketing)	Low	Low to moderate	Moderate to intense	Very intense
EXTERNAL PRESSURES (economic, governmental, societal)	Stable	Stable to moderate	Moderate to heavy	Volatile major threats, rapid changes, major penalties

Source : Clifford and Cavanaugh (1986), p. 29.

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 [Table 2-2] The Complexity of FIS-HSM in Korea

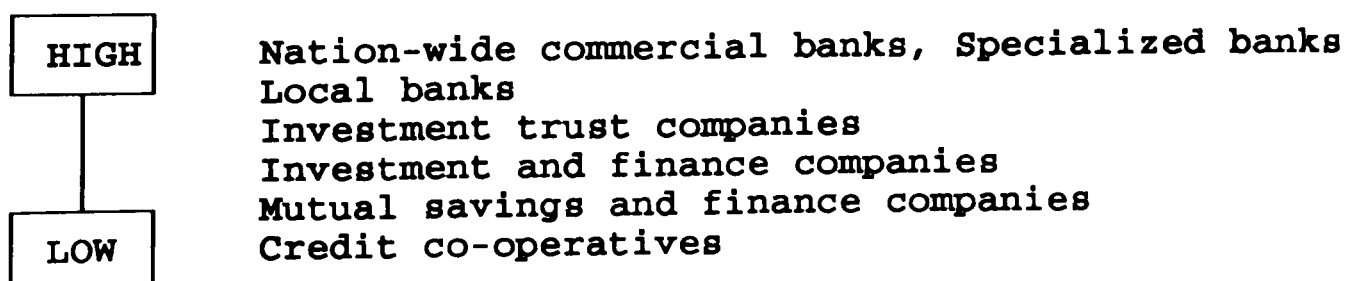


Table 2-2 shows the summarized general complexities of FIs-HSM² in Korea. Briefly speaking, credit cooperatives provide a limited range of products for their customers in small areas in a single site. On the other hand, nationwide commercial banks (NCBs) provide a wide range of products to their customers through nationwide distribution channels. Therefore, it can be said that NCBs generally compete with seven different groups of FIs-HSM having different complexities in HSM.

2.3. ANALYZING COMPETITORS

All firms, except those firms which have absolute monopoly power, have direct, indirect and potential competitors based on the concept of substitutes. Direct competitors of a firm offer the same/similar product to the same customers in the same/similar condition(s). Indirect competitors are any firms offering the same/similar class of products (eg. any financial products for household), and, more broadly, offering any kinds of products in order to compete for the disposal income of the target customers of a firm (Black et al. 1985). Potential competitors are any firms which want to enter the same/similar activities of a firm through the extension of their product(s) and/or market(s), or diversification (Aaker 1988).

Broadly speaking, in HSM, Korean banks have competed with not only other FIs-HSM but also others (eg. private lending, investment in real estate and shares, and "Kye") which can absorb households' disposable income after spending. In a narrow and direct explanation, however, a bank in Korean HSM may regard other

² : The activities of FIs-HSM will be studied in chapter four in detail.

banks in HSM as its main competitors in the market.

Within the same industry, some firms which are specialized/served in some parts of the market may not regard other firms serving in other parts of the market as their main competitors. For example, automobile firms producing mainly saloon cars for the general public may not regard other automobile firms producing solely buses and/or heavy trucks as their main competitors. FIs-HSM may not regard other financial institutions which are operating solely in the corporate sector as their main competitors in HSM.

2.3.1. THE IMPACTS OF COMPETITORS

Porter (1985) said that every firm confronts with good and bad competitors. Good competitors are those firms competing by the rules of the industry, lowering costs, setting prices reasonably, improving the quality and differentiation of their products, limiting their market share in a relative degree, and improving the industry structure. Bad competitors are those firms violating the rules of the industry, increasing the costs, taking a huge risk, and inducing the overcapacity of the industry so that they cause severe competition and create disorder within the industry. However, all competitors have commonly some characteristics of both sides (good and bad) which a firm can not easily control, but may influence and thus precipitate a change in their attitudes to some degree.

From time to time, a firm is confronted with good competitors and bad ones in the marketplace. For example, in order to preoccupy a competitive position in a stabilizing industry, a firm's vigorous action (eg. heavy advertising campaign) may

provoke its competitors' strong reaction, and ultimately change competitors' attitudes. Therefore, on formulating a competitive strategy, a firm should concentrate its efforts on attacking bad competitors while maintaining a relatively friendly position with good ones, and it should try to minimize the reactions of competitors, if possible.

The existence of competitors can give a firm such strategic benefits as :

- Lower the antitrust risk
- Increase total demand of the market
- Lead to more differentiation
- Provide a cost umbrella for the less-efficient producers
- Share the cost of market development
- Legitimize a new technology
- Improve bargaining power versus labour or regulators
- Cover the less-attractive segments of the market (Kotler 1988).

For example, cooperating with other banks, banks can reduce the automatization cost (eg. share of CDs/ATMs network with other banks), deter the potential new entrants to their market, and resist effectively the new government legislation which may influence badly on their activities in the market. However, the strategic development - for example entry barriers - with other existing firms in order to sustain the current market conditions may bring a negative impact on the welfare of customers, and then induce a strong government reaction (eg. new legislations) which may threaten the operations of the existing firms, and which may require changes in the whole structure of the market.

2.4. FOUR TYPES OF THE MARKET STRUCTURE

After analyzing the scope of its activities, a firm has to understand the

structure of the market³ to which it belongs. Very frequently, a firm belongs to several markets based on the scope of its activities. Drucker (1974) argued that a firm's business should be thought completely and spelled out clearly, otherwise the firm lacks a solid foundation for establishing realistic objectives and goals, strategies, plans, and work assignments. Market structure - although it changes over time - is basically specified by how many sellers are in the market.

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 [Table 2-3] Sources of Mobility Barriers

MARKET-RELATED STRATEGIES	INDUSTRY SUPPLY CHARACTERISTICS	CHARACTERISTICS OF FIRMS
Product line	Economics of scale :	Ownership
User technologies	production	Organization structure
Market segmentation	marketing	Control systems
Distribution channels	administration	Management skills
Brand names	Manufacturing	Boundaries of :
Geographic coverage	processes	firms
Selling systems	R&D capability	diversification
	Marketing and distribution systems	vertical integration
		Firm size
		Relationships with influence groups

Source : Studied by McGee and Thomas (1986), and adopted by Kerin et al. (1990), p. 302.

The formation of a market structure is mainly influenced by mobility barriers which are classified into entry barriers, mobility barriers, shrinkage barriers and exit barriers (Kotler 1988). Sources of mobility barriers are shown in table 2-3. Along with those, the government can create artificial mobility barriers through the licensing and legislation. Accordingly, market structure can be mainly classified into the structures of monopoly, oligopoly, monopolistic competition, and perfect

³: A market is defined as an intersection between a class of customers and a bank product or service group (Channon 1986, p. 14).

competition.

Monopoly structure occurs when only one firm provides a certain product in a certain area, mainly in virtue of absolute mobility barriers. A firm having a monopoly power can enjoy a maximized profit with minimal efforts (eg. product quality, customer service) because its customers must buy its product in the absence of close substitutes.

Oligopoly structure⁴ means a few firms provide customers with the product(s) - either the same one or partially differentiated ones - helped, in some degree, by mobility barriers. The firms may enjoy a high profit with a certain level of effort because of the close substitutes of the same/similar product(s) offered by others. Because a few firms are in the market, they can easily agree themselves on the level of price, the access in resources, the allocation of market share, or others. If there are potential new entrants, they may unite easily to deter them. A firm in oligopoly structure can achieve a competitive position through the use of differentiated attributes (eg. features and quality of product, location, brand, customer service, advertisement, and others), as long as it does not provoke others strongly in the market.

A monopolistic competitive structure consists of many firms able to differentiate their products in some degree. Mainly due to the relatively few of mobility barriers, customers in this market may respond to price and non-price variables (eg. features and quality of product, location, brand, customer service, advertisement and others) provided by firms. Therefore, the best strategy of a firm

⁴ : Kotler (1988) divided an oligopoly structure into (a) pure oligopoly in which a few firms offer essentially the same product to the customers, and (b) differentiated oligopoly in which a few firms offer partially differentiated product(s) which are close-substitutes each other.

in this market will be the maximum fulfilment of the customers' needs, and the differentiation of itself from others. Although the successful differentiation of a firm provides a high profit over the market average, the firm can not easily carry it out because of (a) the existence of relatively close substitutes, and (b) the easy imitation by others, especially in case of service firms.

A number of firms in a perfect competitive structure provide either the same or similar product in the absence of mobility barriers. If any firm in the market of a perfect competitive structure creates and achieves any kind of the differentiated attributes in order to pre-occupy a superior competitive position in the market, the market becomes a monopolistic competitive structure. Therefore, it can be said that there is no pure competitive market in reality because all firms try to differentiate themselves from others by providing customers with the differentiated attributes in any degree.

It can be said that FIs-HSM of Korea are in a monopolistic competitive structure. Although a number of financial institutions are operating in HSM, they differentiate themselves from others in the market partly by their efforts and partly by the artificial demarcation of the regulatory authorities (eg. the level of interest rates, different range of products assigned to different financial institutions, distribution channel). They are protected from the threat of new entrants by strong mobility barriers (eg. high capital requirements, licensing requirements). However, they are also deterred to compete freely with other FIs-HSM which are grouped into different groups of FIs-HSM (eg. DMBs or NBFIs) on the assumption that severe competition among FIs-HSM may threaten the stability of the national economy.

2.5. THE EXTERNAL/INTERNAL INFLUENCES ON STRATEGIES

Through proper environmental analysis, a firm can avoid major surprises which may come, identify threats and opportunities in good time, improve planning, decrease reaction time, and enhance the self-understanding of internal capabilities (Marsh 1988, James 1991). As the first step of developing competitive strategy, therefore, a firm should understand the determinants of strategy which are likely to dictate or mould the strategy to be selected. By mentioning that "formulating a suitable strategic plan involves matching an organization's internal capabilities with its external opportunities, subject to an acceptable degree of risk", Thompson and Strickland (1978) described major determinants of strategy as shown in table 2-4.

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[Table 2-4] Major Influences on Strategy Formulation

Product-Market Opportunities
Environmental Threats
Societal Constraints and Social Responsibility
Organizational Competence and Resources
Managerial Values and Aspirations
Strategy and Organizational "Personality"

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Opportunity will occur either within the scope of a firm or an industry-wide. The industry-wide opportunity will be less likely to provide a competitive advantage to an individual firm, because almost all firms in the same industry will enjoy the opportunity available in the market. However, some firms may encounter a relative competitive disadvantage, if they cannot grasp the opportunity available due to the lack of the internal capabilities. If an opportunity provides a benefit for a firm

solely, and its internal capabilities may fit into the opportunity available, the firm will enjoy a strong competitive advantage in the market. A firm has to judge an opportunity based on its attractiveness and its success probability (Kotler 1988), and then develop a suitable competitive strategy.

Threat can be defined as a challenge posed by an unfavourable trend or development in the environment that would lead, in the absence of purposeful marketing action, to the erosion of a firm's or industry's position (Kotler 1988). Generally, environmental threat occurs without warning or with few, if any, advance clues. Moreover, even though threatening signals may be detected early, it is not always easy to assess the extent of their strategic significance. Therefore, a firm is more likely to react to threat rather than to attempt to predict it. Threat assessed by the seriousness and probability of its occurrence (Kotler 1988) causes difficulty in implementing the continuation of a strategy or a new strategy to pursue a new opportunity.

Matching its internal capabilities with its external conditions - either opportunities or threats - requires to modify the strategy of a firm. Besides, adopting a certain strategy tends to result in different impacts on the welfare of society. Therefore, a firm has to consider its general obligations to protect and improve the welfare of society on launching its competitive strategies.

2.5.1. THE EXTERNAL ENVIRONMENTS

External environments which influence (or dictate) the operations of a firm comprise government policy and legislation, political and economic situation,

culture, demographic, technological development and others.

First, the government creates a structure of HSM by the exercise of licensing power over FIs-HSM so that the government can easily change the structure of competition by allowing new entrants through relaxation of the licensing conditions, new legislation and others. In addition, the government can change the operations of FIs-HSM and the shape of the market through the policies of taxation and interest rates. For example, higher tax incentives and interest rates on household savings with FIs-HSM may attract households to save further in FIs-HSM, and then enlarge HSM. The preferential treatments (eg. wide distribution channel, higher interest rates) given by the government to some groups of FIs-HSM over others in the market will create an artificial competitive advantage.

Second, the change in political and/or economic situation of the nation will affect the operations of FIs-HSM. The level of inflation rate, unemployment rate and household disposable income may influence the shape and size of the market. Especially in the less developed countries, for example, higher inflation rates or instability of political situation may cause households to withdraw savings from FIs-HSM to purchase gold or real estate, for fear that the savings in FIs-HSM may become of mere paper value in the future.

Third, the changing cultural-social backgrounds can influence the development of competitive strategy. For more than 600 years, Korean society has been dominated by the ideas of Confucianism⁵. However, the cultural-social base of Korea has recently changed into a Westernized culture base. In line with that,

⁵ : It emphasizes (a) the virtues of work, thrift, education, filial piety, ancestor worship, and kinship affiliation, (b) the respect for personal success, (c) the dominance of elderly males, (d) the order and hierarchy among people, and (e) harmony.

households have adopted a different value of life, a different lifestyle, and changed attitudes. Therefore, FIs-HSM are required to implement different approaches in order to attract those households who are exposed to or have adopted Western culture, compared to their efforts in the market in some years ago.

Fourth, the change in nation's demographic trends (eg. total number of population, average members in household) will affect the market size and shape of the market. These aspects will be studied in chapter 5.

Fifth, technological advance (eg. automation of process, product delivery, data processing) can give an opportunity and/or a threat to FIs-HSM, as well as to any other firms. The use of technology in banks improves the functional efficiency of branches, lessens the administrative pressures on branches, and enhances the opportunity of marketing, with a potential to project a corporate image. However, the general availability of technology in the market has meant that no significant competitive advantage has emerged (Chorafas 1987, Howcroft 1990). Frazer (1985) said that technology has been used by banks in the following four main ways. Technology for accounting permits greatly expanded customer bases to be handled easily. Technology for automation reduces substantially operation costs. Technology for liberating cuts banks free from traditional constraints on time and place. Technology for innovation introduces new financial products. Therefore, technology can be viewed as a way to reduce costs, primarily as a substitute for labour, and as a vehicle for improving customer access to a bank (Bain 1986, Roth and van der Velde 1990).

The assessment of external conditions will provide a firm with a clear picture of opportunities and/or threats. The changing external conditions can provide a

firm with either new strength, weakness, opportunity and/or threat, as well as alter its strength (or opportunity) into weakness (or threat) and vice versa. Therefore, a firm has to observe the changing patterns of the external environments carefully. If the external conditions which influence the business sector prospects are not fully recognised, and if a competitive strategy of a firm is not developed/implemented properly in the market, the firm is less likely to gain a competitive advantage, and the resources used to develop the competitive strategy are consumed, without any fruit.

2.5.2. THE INTERNAL CAPABILITIES

With respect to the internal capabilities of a firm, Thompson and Strickland (1978) said "opportunity without the competence to capture it is an illusion". Therefore, the main reasons for analyzing the capability of a firm are : (a) to capitalise on external opportunity which usually signifies effective use of internal strengths, (b) to protect the firm from environmental threats through assessing internal weaknesses as well as strengths in order to erect adequate defence, and (c) to reach a compromise between offence and defence with the optimum balance dependent on awareness of external conditions and skilful utilization of internal resources (Harrison 1989).

Greenley (1989) categorized the internal capabilities of a firm into resources, managerial and operations capabilities. Resources capabilities of a firm include (a) its financial structure, (b) physical resources, (c) intangible resources, (d) human resources, and (e) administrative systems. Financial structure can be decided by

the current structure of capital employed and the potential availability of future funds, tax position, investment intensity and others. Physical resources can be determined by geographical spread and current conditions of premises and machinery, technology adopted and others. Intangible resources include corporate image, goodwill, patents, trade marks, reputation, consumer loyalty and others. Human resources come from quality of employees, quality of training and development, labour cost, good industrial relationship and others. Administrative systems include the internal organisation of work, and delegation of duties. A firm should appraise the current position and potential for future expansion on considering resources capabilities.

Management is the vital force that makes a firm go, and good management is the key factor in the successful performance of a firm. The management capabilities of a firm represent the responsiveness attitude of managers, the competence of managers to respond to change, and the capacity of managers to absorb and carry out the volume of work (Ansoff 1979). Most managers are more likely to behave in accordance with their own view of strategy and their own values and preferences when choosing among alternative strategies and when interpreting the strategic plan. Naylor (1985) of General Motors insisted that "management effectiveness" of a firm is the key factor of survival and growth in business competition by mentioning :

Business competition is a race, a race that never ends. While we still need a superbly designed and manufactured vehicle, driver skill is now paramount. The highly skilled driver can compensate for some inadequacies in his vehicle and stay ahead of a mediocre driver in a highly-turned machine. Even more significant, the highly-skilled driver actually welcomes bad driving conditions because his skill can then become an even bigger comparative advantage. Management

effectiveness is directly analogous to driver skill and today's prevailing business conditions are twisty mountain roads (Naylor 1985, p. 31).

In addition, good management can pick good people as firm's personnel, keep on training them, create/foster "Yes-I-Can" attitudes to them, and keep them inside the firm. The important thing is that the management can influence the culture⁶ of a firm, the power delegated to individual manager, the decision-making procedures, and rewards and incentive schemes. For example, successful product innovation in commercial banks has been found to be dependent upon the existence of a flexible management structure which stimulates and progresses efficient product innovation, good internal integration of all activities involved in innovation, and a corporate culture receptive to innovation (Ennew et al. 1990).

Operational capabilities of a firm can be characterized as marketing factors and production factors. Greenley (1989) said that marketing factors can be examined by the following aspects as : (a) suitability of current products in relation to market needs, as well as the development and implementation of product modifications, (b) price structures relative to profitability and market price levels, (c) the role of promotional communications within the mix in relation to expenditure and effectiveness, and (d) appropriateness and effectiveness of selling and distribution, including the total service provided. Marketing factors, as a operational capability, comprise market share, annual growth rate of sales, maturity of products, quality of product/service, width of product line, quality of

⁶ : It is viewed by the aspects of focus on customers (or internal activities), propensity of risk, individual (or collective) decision-making, centralized (or decentralized) decision-making, systematic (or unsystematic) planning, cooperation (or competition) among workers, simple (or complex) organisational structure, individual (or group) rewards and others (Reynolds 1986).

distribution channels, level of customer loyalty and others (McNamee 1984).

Through the analysis of the production operations, a firm has to examine the following aspects :

The design and appropriateness of the production process in relation to current technology and the process adopted by its competitors. The relationship of current capacity in relation to current and potential market demands plus economies of scale to be achieved at different levels of output. The effectiveness of the management of raw materials and components, work in progress, and finished products within the production process. The organization of all levels of people employed in production, with particular attention to work motivation and the utilization of skills. The maintenance of quality control throughout the production process and an appraisal of current standards in relation to market requirements (Greenley 1989, pp. 65-66).

The shared set of corporate values and expectations seems to provide a guide for behaviour including establishing a competitive strategy. Each firm has its own unique personality and mode of behaviour. For example, some firms are aggressive, and others are more complacent and slow-moving. Accordingly, a firm may have a tendency to adopt either steady-growth strategies, aggressive strategies, or merely to follow strategies initiated by competitors.

Moreover, the additional important facet of the internal capabilities of a firm is the marketplace's perception of what the firm's strength and/or weakness is (Fifield 1992). The marketplace's opinion about firm's particular strength in a particular product and/or market area means that a firm will be able to achieve significant success in this area even though the firm may have little or no strength in this area, compared with its competitors. The same naturally applies to weaknesses.

On comparing a firm's internal capabilities with the external environments

which surround and dictate the operations of a firm, the firm can maximize the use of its capabilities, as well as minimize the idle and non-productive resources.

2.6. THE TARGET SERVED BY A FIRM IN THE MARKET

Even though a number of firms compete in the same market, their market coverages are different from those of others in the same market based on the customer groups they have targeted to serve, geographic coverage, and/or the range of their products (Channon 1986). Based on its capabilities and market conditions, a firm in the certain market can target its business toward some or all customers, and toward satisfying some or all of their needs as shown in figure 2-1.

On compromising between the capabilities of firms and the profitability from the market served, some firms try to meet all (or some) needs of all customers, and others try to fulfil all (or some) needs of some customers in the market (Stemper 1990). For example, some automobile firms produce all sizes/types of cars (eg. sizes of small, medium and large, and types of saloon, wagon and jeep) for all customers in all countries around the world by fitting a steering wheel of a car in either the left side (for customers of continental European countries, USA and elsewhere) or the right side (for customers of UK, Japan and elsewhere). However, others produce limited range of cars for fulfilling a limited customers needs in limited areas. As another example, of FIs-HSM, some (eg. banks) provide a wide variety of products (eg. money transmission, deposits, loans, credit cards, factoring, trust, foreign exchange and others) for all customers. Others (eg. mutual savings and finance companies) deal with a limited range of products (eg. deposits and loans)

within limited geographic areas.

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[Figure 2-1] The Target of A Firm in The Market

All needs of Some customers	All needs of All customers
Some needs of Some customers	Some needs of All customers

Source : Stemper (1990), p. 26.
=====

Products of those firms which try to satisfy all needs of all customers should be wide enough to fulfil all the needs of all customers in the market, and to encourage them to use the products. Therefore, it is required to have the major resources commitment of the firms. However, it is impossible to satisfy all needs of all customers practically because some customers may have the personalized different needs from others, and then they require different products. It is also not viable for a firm to invest in products which do not provide an adequate profit, even if they can fulfil customers needs.

Those firms which try to serve some needs of all customers can minimize the investment required, and avoid entrenched head-on competition (Stemper 1990). However, if a firm can not differentiate itself from others properly, and it can not gain a competitive advantage through the superiority of image, product quality, innovation and others, it will become involved in head-on competition, and the area served by the firm will become a severely competitive one. Therefore. the firm serving some needs of all customers has to clarify the customers' needs which can

be large enough to guarantee a long-term profit to the firm. The firm can differentiate from other firms in order to overcome potential severe competition by capitalizing the use of internal resources.

In the market, some firms can target customers who live in some areas, and belong to certain age groups, life style, occupation, income level and others. Those firms trying to serve all (or some) needs of some customers have to target a proper customer group(s) and communicate effectively with the targeted customers in order to succeed. For example, Korean local banks have provided almost the same products of NCBs for household customers, but their geographical coverages are generally limited to local areas. Those firms which try to serve some needs of some customers can manage and differentiate themselves easily. The capital requirements for the firm in this position may be relatively small, but creativity and innovation are vital for success. However, the risk is when the niche which the firm has served may change dramatically or disappear. The products offered by any firm in any position of the market should satisfy the essential needs of the target customer groups in order, at least, to survive.

Regardless of firm's position in any quadrant of the four in figure 2-1, its main operating objective should be a long-term survival with an adequate profit. After the fulfilment of the main objective, a firm may pursue to increase the rate of return on investment or its market share, and to become a market leader or a market dominator. Accordingly, a firm has to altercate its strategic direction which can result in either growth, stability or a reduction in its size and operations which are measured by sales (or resources employed), based on both its internal capabilities and external conditions (Luffman et al. 1987). If a firm predicts that

it can not survive in the long-term because of the lack of internal capabilities and because of strong adverse effects (or threats) in the external environment which surrounds a firm and affects the activities of a firm, the firm has to choose a strategy of reduction. Otherwise, a firm has to pursue either growth or stability strategy.

2.7. THE BASIC FRAMEWORK OF COMPETITIVE STRATEGIES

A firm can develop its competitive strategies based on either the firm itself, its competitors, or customers (Ohmae 1982). The main aim of the firm which develops competitive strategies based on its capabilities is to maximize its strengths (eg. product quality, wide distribution channel, low costs) to win through competition in the functional areas that seem to be critical to success in the market. The firm in corporate-based strategies may pay less attention to either its competitors or customers than its capabilities. Therefore, a firm's lack of the knowledge of its competitors' movement and changing customers' needs will not only create dissatisfaction amongst customers and thus lead to customer disloyalty, but also make the firm vulnerable to competitors' attack.

Competitor-based strategies are constructed by looking at any possible sources of differentiation (eg. product range, price range, distribution channel) from its competitors. A firm in competitor-based strategies spends a great deal of its resources in tracking competitors' movements and competitors' market shares. Accordingly, its strategies are basically determined by competitors' actions and reactions in the market (Kotler 1988). Competitor-based strategies of a firm can

develop a fighter orientation, and make the firm constant alert by watching for its weaknesses and competitor's weaknesses. A firm in competitor-based strategies exhibits a great reactive pattern based on the movements of its competitors. Therefore, its competitors can easily predict/prepare the reactions of the firm against their new strategic changes.

A firm in customer-based strategies focuses more on customers' needs and wants. Different customer groups are likely to want slightly different products in the market, and strong competition among firms in the market will give customers many alternative choices. Consequently, a firm must monitor and respond to customers' changing needs and preferences in order to ensure the fact that customers select its offerings over competing alternatives (Kohli and Jaworski 1990). However, a firm can not satisfy all customers having different needs so that it has to distinguish the easily accessible customers groups from the hard-to-reach ones. The capabilities of competitors which fulfil customer needs of the same customer groups are different from those of the firm. Therefore, the customer-oriented firm is in a better position to identify new opportunities, to set a strategy course and to invest its capabilities effectively than those firms with either corporate- or competitor-based strategies. In line with that, Ohmae (1982) insisted customer-based strategies are the basis of all strategies.

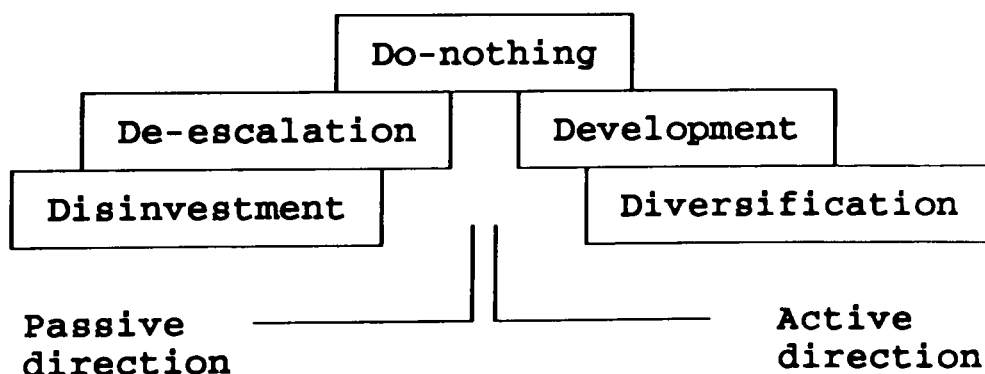
Here, the dilemma is laid to choose one of these three strategies, corporate-based, competitor-based, or customer-based. A firm can analyze its competitors and customers in the market, but it can fail to strengthen its capabilities. If a firm with competitor-based strategies is deliberately misled by others, and if it can not preempt a trap made by its competitors, the firm will spend its capabilities, without

any fruit. Therefore, customer-based strategies are thought to be the basis of all strategy of a firm. However, every firm is required to keep on paying balanced attention to its capabilities to fulfil customers' requirements, and its competitors' strategic movement on developing strategies.

2.8. THE 5Ds FOR STRATEGIC DIRECTIONS IN THE MARKET

The market to which a firm belongs is continuously evolving, not static. Therefore, the firm is continuously required to adopt a suitable strategic direction in the market it serves. The possible strategic directions to be selected by a firm will be one of the five directions for its operations in the certain market as shown in figure 2-2.

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 [Figure 2-2] Strategic Directions in The Market



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 A firm may adopt either passive directions or active directions along with do-nothing strategic direction based on the external environmental facts, which surround and dictate firm's operations, and its internal capabilities.

2.8.1. DISINVESTMENT

The direction of disinvestment which is similar to the withdrawal strategic direction of Johnson and Scholes (1988) means that a firm withdraws wholly from the current market(s) served and the current product(s) offered. A firm may choose either forcibly or voluntarily this direction because : (a) the unattractive and no-growth market prospects, (b) the constant decline of its market share, (c) the lack of its capabilities to compete with its competitors, even though the market is growing, (d) its operations (its main products) are subject to a considerable change due to the change of the government regulation, technology, or the customers preference, but the firm can not afford the change, (e) The protection of shareholder's interests from bad debt increased or bad management practised, and/or (f) it, as a part of multi-diversified firm, is sold to invest other parts of its business.

When considering the implementation of disinvestment, a firm has to limit expansion/investment, cut operating costs and rationalize operations, if possible, and then disposes it at the point of time that will maximize cash value of the firm, minimize customer and social impact, and minimize the friction of stakeholders. A firm or the part of a firm can be either closed-down (and liquidated), sold to the management and/or employees of the firm, or sold to a third party.

2.8.2. DE-ESCALATION

De-escalation direction means that a firm withdraws partly from the current

market(s) served and/or the current product(s) offered, and then consolidates the remained market(s) served and/or the remained product(s) offered. The de-escalation direction may be mainly chosen by a firm because its position in the marketplace is deteriorated by the severe competition so that it can not afford to cover whole range of market(s) served and/or product(s) offered. The firm may also choose this direction because of the reasons mentioned in the disinvestment direction above. When a firm decides to retreat partly from its position, it should, first, retreat from the least attractive (eg. providing the lowest profit, no profit or loss) and/or the highest competitive area(s) amongst which it serves.

2.8.3. DO-NOTHING

A firm choosing a do-nothing direction keeps on both the current market(s) served and the current product(s) offered, while environments around it change. A firm may stay in the do-nothing stage because of (a) the strong doubtfulness of the exercise of other strategic alternatives, due to the uncertainty of the environments, and the lack of its internal capabilities, (b) the hindrance of the firm's discretion on choosing other directions by the external conditions (eg. regulation) and its internal capabilities, (c) management's strong confidence in its current strategy, and/or (d) management's propensity against risk.

The most important consideration of the firm in the do-nothing stage is that its competitors have continued to struggle to preoccupy a better competitive position in the marketplace, although it stays in the current position with (or without) the strong confidence of its current strategic direction.

2.8.4. DEVELOPMENT (MARKET/PRODUCT)

A firm choosing a strategic direction of development may extend its market coverage, and/or its product range within the market boundary it serves. For example, a firm serving some needs of some customers in the market may extend its coverage to fulfil all needs of all customers in the market through the strategic direction of development.

Market development can take either of the following two forms. First, a firm attracts new customer groups who have not been previously exposed to its products by the firm by developing its products utility. Second, a firm enters new geographical areas previously unserved by the expansion of the distribution network. However, along with the expansion of distribution network, for example, banks can adopt the new technology (eg. CDs/ATMs, remoted unmanned facilities, home banking), as a means of penetrating and expanding new geographic markets.

A firm may choose this strategic direction because its products have fully satisfied the needs of the current customers, because the growth of the current segment served by the firm can not be guaranteed any more, and because the implementation of other strategies (eg. introduction of new product, diversification) is restricted by the external conditions (eg. regulation) and/or its internal capabilities. With the implementation of this strategic direction, a firm has to identify (a) the demands and acceptance of the firm's products in new target customers, (b) the potential needs of product modification before entering into new segment(s) of the market, (c) the requirement of capital investment in the case of the geographic expansion, and (d) the possible reactions of competitors positioned

in the new markets planned to enter. Finally, a firm adopting this direction must have the capabilities to meet additional needs incurred, as the firm enters new areas.

The strategy of product development means that a firm introduces new additional product(s) to the markets which it serves in order to replace the current products, and/or simply to add new products to the current products offered. The forms of product development are to expand the range/variety of products offered and to develop a new generation products by help of new technology and the lowering regulation imposed over the product development. A firm may choose this strategic direction on the assumption that the total market is saturated by all of its current products, and additional new product(s) will have the additional sales and market share potentially (Greenley 1989).

As a firm develops new product(s), it should maintain the security of its present markets (Johnson and Scholes 1988). A firm, which regularly researches and develops newly innovated product, will gain a succession of temporary advantages over its competitors and an innovative reputation, and may retain effectively those customers who want to go with the best. However, when a firm introduces new product(s), it should not result in customer confusion (Cowell 1990) due to a mixture with the current product(s) offered in the market.

2.8.5. DIVERSIFICATION

A firm with diversification, as its strategic direction, keeps on the current market(s) served and the current product(s) offered, and then extends into new

market(s) and/or new product(s) over the boundary of the current market it serves. Diversification may be either related or unrelated to the current activities of a firm. The reasons of firm's diversification, given by Ansoff (1987, pp. 126-127), are as follows :

"firms diversify when their objectives can no longer be met within the scope of the present portfolio..... Even if attractive expansion opportunities are still available and past objectives are being met, a firm may diversify, because the retained cash exceeds the total expansion needs of the present portfolio. Even if current objectives are being met, a firm may diversify when diversification opportunities promise greater profitability than expansion opportunities..... Firms may suffer from the grass looks greener in the neighbour's yard syndrome".

For example, an automobile firm which produces saloon and wagon cars for the general public may diversify/extend its production line to produce trucks, buses for military purposes, or enter different businesses (eg. producing computers, motor insurance). Recently, IBM computer diversifies its product ranges and enters the personal computer market from its traditional engagement of the business sector exclusively. Those financial institutions which serve solely for household customers may diversify their activities into corporate financing sector or insurance sector.

2.9. DIFFERENTIATION STRATEGIES

No matter which strategic direction a firm chooses, the firm is required to differentiate itself from its competitors successfully in order to support the implementation of a selected strategic direction, and to achieve competitive advantages in the market it serves. The reason for this is the possibility that a

firm will perhaps encounter current competitors which adopt the same strategic direction in the market, and/or others which are already pursuing the same strategic direction newly adopted by the firm.

Michael Porter (1980, p. 37) said differentiation strategy is "one of differentiating the product or service offering of the firm, creating something that is perceived industrywide as being unique" through the following forms as design or brand image, technology, features, customer service, dealer network, and others. In the market(s) it serves, a firm can differentiate itself from its competitors through the modification and improvement of the current product(s) offered⁷. However, the differentiated features can only have strategic importance if they are recognised and valued by the target customers (Johnson and Scholes 1988), and if they can reduce the substitutability of other products (Mathur 1988).

As mentioned by Peters (1988), however, as a firm tries to differentiate itself from others, the firm should remember the following things :

- Don't offer the exaggerated differentiation that the market doesn't want
- Don't negate useful (and expensive) differentiation by underattending to other parts of the product-service package

⁷ : Porter (1980) argued that strategic advantage can be gained through differentiation, overall cost leadership, or focus. However, focus involves achieving differentiation, low cost, or both, vis-a-vis a narrow market segment. In this sense, there are only two ways of gaining competitive advantage. He argued there is little scope for achieving differentiation in conjunction with cost leadership by suggesting that a high differentiation position tends to increase the firm's average cost position. However, this causes a critique. Karnani (1984, p. 375) argued that differentiation and a low cost position can be observed to occur together by mentioning that "the relationship between differentiation and average cost position is determined by the net result of two opposing forces. First, high differentiation probably leads to a high cost position independent of scale, which in turn leads to a high average cost position. Second, high differentiation leads to high competitive strength, which leads to high market share, which in turn leads to a low average cost position. Which of these two forces is stronger will, of course, depend on the specific situation." Moreover, Porter (1985, p. 18) in his book "Competitive Advantage" left some possibilities of the combined achievement of cost leadership and differentiation at the same time, by saying that "reducing cost does not always involve a sacrifice in differentiation.If a firm can achieve cost leadership and differentiation simultaneously, the rewards are great because the benefits are additive - differentiation leads to premium prices at the same time that cost leadership implies lower costs".

- Don't let premature implementation of exotic technology trip you up
- Don't forget that the differentiation is not achieved until the customers are well-aware of the difference created.

The important thing is that differentiated features created by a firm should be perceived by the target customers - not only by its competitors - as being unique (noticeably better, not merely among the better suppliers of products) in the market. Moreover, in order to achieve competitive advantages effectively, the differentiated features can not be imitated by competitors easily, and should give meaningful benefits to customers so that they will pay a sufficient premium over any increased costs on the added benefit (Sharp 1991). However, when implementing differentiation strategies, a firm should not cause an additional cost incurred⁸, if possible.

A firm's competitive advantage is durable only if competitors cannot readily imitate its superior product/delivery attributes⁹ which can help to differentiate itself from others. Coyne (1986) mentioned that differentiation creating a durable competitive advantage is determined by (a) the effectiveness of business system, (b) positioning in marketplace, (c) regulatory/legal intervention, and/or (d) organisation or managerial quality. And he stressed that competitive advantage is the result of all net differences in important product/delivery attributes, not just one factor such as price or quality.

⁸ : If a firm differentiates itself from others with additional costs incurring, the firm can not differentiate itself properly because the incurred costs in the differentiation may be passed to the increase in price. On the other hand, if the firm has a cost advantage, the new cost(s) incurred in the process of differentiation will be absorbed and spread in its overall operations, and the incurred costs may not be transferred to the customers directly.

⁹ : These include on such elements as price, availability, quality, functionality, consumer awareness and others.

2.9.1. FOUR DIMENSIONS OF DIFFERENTIATION

A firm can differentiate itself from its competitors through either the product (merchandise), the customer support it offers, or both, as well as through price dimensions. Mathur (1988) suggested a broad framework for classifying the ways in which a firm can differentiate itself from competitors based on "merchandise¹⁰" and "support¹¹" as shown in figure 2-3. He produced a matrix based on the differentiated (or undifferentiated) merchandise and support, and referred the four generic strategies such as system, product, service and commodity.

===== [Figure 2-3] Dimensions of Offering Differentiation =====

M E R C H A N D I S E	Differentiated	System	Product
	Undifferentiated	Service	Commodity
		Differentiated	Undifferentiated
		SUPPORT	

Source : Mathur (1988), p. 34.

A firm adopting a "system" quadrant is one which can fully differentiate its merchandise and its support from those of its competitors. On the other hand, a

¹⁰ : It means the core items - either tangible or intangible - offered by a firm to the customers.

¹¹ : It includes everything - in connection with the sale of merchandise - provided by a firm to the customers.

firm adopting a "commodity" quadrant offers undifferentiated (or standard) merchandise, as well as undifferentiated mode of support, so that the only competitive weapon of the firm may be price dimension. Deciding which way and how much a firm wishes to differentiate in two dimensions (ie. merchandise and support) will be one of the most important strategic decisions made by the firm.

In a merchandise side, a firm can differentiate itself from others through either a content of merchandise or an image of merchandise, or both. Content of the merchandise means unique performance capabilities of the merchandise. Image of merchandise (as well as image of a firm) reassures a customer about the choice which he/she made, without placing great emphasis on the content of the merchandise chosen. Therefore, the image created by a firm and accepted by customers can give the firm the scope for differentiation that extends beyond a certain class of merchandise.

Additionally, a firm can differentiate itself from others by providing either better personalised support or greater expert support, or both. These can be created by a friendly smile, a more cordial handshake, and a more willing attention to its customers based on the good knowledge and familiarity of its personnel with the problems, and needs of its customers.

As a conclusion, Mathur (1988) argued that if the only difference between competitive offerings lies in the item (product) itself, it is likely to be good for a firm to compete on the basis of merchandise differentiation. Conversely, if the only difference between competitive offerings lies in the advice, assistance offered and/or surrogate clues about the core items offered by a firm, other than the core items, it is helpful for a firm to think competing on the basis of support differentiation.

Deciding which dimension a firm wishes to take, and how much a firm wishes to differentiate is to make one of the most important strategic decisions about how the firm chooses to compete.

2.10. SUMMARY

This chapter tries to provide the pictures of how competitive strategies are constructed. A competitive strategy is defined as the search of a guideline for a firm's actions to keep on its survival from the changing competitive external conditions, and then to achieve its business purpose by properly deploying its internal capabilities. Based on the understanding of the complexities of activities, competitors, market structure, and internal capabilities and external conditions, a firm has to frame proper competitive strategies in order to survive in the market it operates, and to achieve its business purpose(s). Formulating a competitive strategy, a firm should review its past and current performance, its resources available, and the characteristics and opportunities in internal/external competitive environments. Thereafter, it should try to implement its strategies to overcome major problems had/coming, and to prey upon competitors' weaknesses. If the external conditions influencing the business sector prospects and a competitive strategy developed by a firm are not properly met in the market, the firm is less likely to enjoy a competitive advantage, and the resources used to develop competitive strategies are consumed, fruitlessly.

Even though customer-based strategies are thought to be the basis of all strategies, a firm is required to pay balanced attention to the needs and wants of

customers, its capabilities to fulfil customers' needs and wants, and its competitors' strategic movement on developing strategies. A firm operating in a certain market can target its product(s) to some (or all) customers in a whole (or some parts of) market based on its capabilities and market conditions. However, products offered by a firm in any position of the market should satisfy the essential needs of the target customer groups.

The possible strategic directions to be selected by a firm will be one of the five directions (ie. disinvestment, de-escalation, do-nothing, development and diversification) for its operations in the certain market. Thereafter, differentiation strategies treated as the basic strategies to obtain and sustain a competitive advantage should be adapted into any of the five strategic directions which a firm has selected. A firm can differentiate itself from others through either the product (merchandise), the customer support it offers, or both, as well as through price dimensions. It may be worth thinking about adopting the more unusual ways, as a firm tries to differentiate itself from its competitors. Finally the most important thing is to understand that competition lies not in what customers purchase, but how they choose between the offerings of firms in the market.

***** CHAPTER THREE *****

DIFFERENTIATION STRATEGIES

An understanding of what services - especially bank services - are is the first step of formulating differentiation strategies, because DMBs produce and sell services other than goods. Thereafter, based on the extended 7Ps from the conventional 4Ps, differentiation strategies, which DMBs have to exercise properly in the market they serve, are described in this chapter.

3.1. WHAT SERVICES ARE

About three decades ago, the American Marketing Association defined services as activities, benefits or satisfactions which are offered for sale or are provided in connection with the sale of goods. However, it failed to differentiate services from goods sufficiently because goods, as well as services, can provide customers with benefits and satisfactions. Thereafter, emphasizing an intangibility of services over the definition given by the American Marketing Association, Stanton (1971, p. 568) redefined services as "those separately identifiable, intangible activities which provide want satisfaction when marketed to consumers and/or industrial users and which are not necessarily tied to the sale of a product or another service".

Moreover, by saying that services are invariably and undeviatingly personal

as something performed by individuals directly for other individuals, Levitt (1972) insisted the importance of personal performance of services. However, as service firms evolve, they move from people-based to equipment-supported (or -based) operations, or vice versa (Thomas 1978). For example, banks as one of many service firms provide their services through the use of automated equipment such as CDs/ATMs. Even though service firms evolve as above, their most critical productive resource should be the personnel who are also regarded as their most important internal customers (Sasser and Arbeit 1976).

Shostack (1982) and McDonald and Leppard (1988) regarded services as benefit-providing. However, benefit-providing can not sufficiently differentiate services from goods, because both can provide benefits. The important thing is that customers buy both services and goods for the benefits received from their use. Emphasizing intangibility advocated by Stanton (1971) and non-ownership of services, Uhl and Upah (1983, p. 236) defined services¹ as "any task (work) performed for another, or the provision of any facility, product or activity for another's use and not ownership, which arises from an exchange transaction. It is intangible but there may be an accompanying sale of a product".

However, Rushton and Carson (1989) argued that all products - both services and goods - have both tangible and intangible features, and that what is different between services and goods is the relative proportions of the features. Goods are more likely to have either only tangible features or a few intangible features attached to tangible features, whereas services are more likely to have intangible

¹ : Another similar definition of services given by Kotler (1988, p. 477) is "any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product".

features. Therefore, it causes a problem to differentiate services from goods according to an absolute degree of intangibility.

To define what services are requires to understand the characteristics of services, although they cannot uniquely be applied to services because the demarcation of services and goods are dependent on a relative, not an absolute, degree of characteristics. For example, some goods have some elements (eg. delivery, after-services) of services. Some services are attached to goods (eg. house insurance, cleaning of house), but others are completely intangible so that customers need to be convinced of the value of their intangible characteristics. The characteristics of services are as follows.

3.1.1. INTANGIBILITY²

Services are performances. They can not be seen, tasted, touched, felt, heard, and smelled in the same manner in which goods can be sensed (Zeithaml et al. 1985). This intangibility of services means incapability of forming a mental image (Gutman and Reynolds 1983). Therefore, the mental image of services is fuzzy, and a customer purchases services with a large element of hope or trust on his/her part (Czepiel and Gilmore 1987, McDonald and Leppard 1988). Because of their intangible natures, services can not be stored, protected by a patent so that features (except names) of services can be easily copied by others, and possessed (but used or consumed) by customers (Cowell 1990).

² : All products have elements of tangibility and intangibility. To add customer appeal, tangible products must be intangiblized and intangible products must be tangiblized (Levitt 1981).

The absence (or lack) of tangible clues of services makes difficulties both for sellers in demonstrating and displaying services, and for buyers in having sample and evaluating before and after purchase (Gronroos 1978, Sasser et al. 1978, Lewis 1989). Therefore, services are evaluated by not only their own core features but also their closest surrogates³ (Goodfellow 1983). In connection with this, services are often called "credence" purchases because customers are asked to believe the promises of service providers (Cox 1985).

In order to improve communication with customers by reducing intangibility of its offerings in some degree, a service firm can use some of the following methods. First, it can provide customers with tangible clues⁴ (George and Berry 1981) through the use of physical environment, symbol, brand name, appearance of its personnel, communication material and others. Services delivered, for instance, can be evaluated by the behaviour of bank clerks, the appearance and kindness of air hostesses, the interior design and arrangement of a restaurant (Wyckham et al. 1975), and the created brand name and image (Onkvist and Shaw 1989, Blois 1990) by using either animals or celebrities. Second, it can develop an organizational image and reputation⁵ (Rushton and Carson 1989) by providing a consistent quality, by after-purchasing communications with customers, and by stimulating word-of-mouth communications (George and Berry 1981) among

³ : These include reputation of the service supplier, the staff behaviour, appearance of the physical facility, convenience of location, service offered by other firms, and the range of services offered (Langrehr 1985).

⁴ : These can solve which customers want to find any kind of clues about services offered in order to compensate for their anxieties about the purchase of intangible services.

⁵ : Customer's selection of services, as well as physical goods, can be heavily influenced by advice from friends and professionals, reputation and past experience (Goodfellow 1983).

customers through making a funny, but creative, logo song which can help to promote its image to customers' minds. Third, it can use more personal resources than others (Cowell 1987) to create inter-personal relationship with its customers, and to build inter-personal trust. Fourth, it can focus on benefits offered in services because customers may be given something tangible to represent a service, but the purchase of a service is ultimately the purchase of something intangible (Cowell 1984).

On the other hand, the intangible natures of services provide a service firm with some advantage over those firms which produce and sell goods (Stanton 1971). That is, a service firm has nothing (or less) to distribute, to store, to handle physically, and to lose from a decline in inventory values.

3.1.2. INSEPARABILITY

Goods can be produced, put into inventory, sold later and consumed still later, while services - argued by Booms and Bitner (1981) and others⁶ - are sold, produced, used and evaluated at the same time. However, some services such as plumbing and repairing of cars can provide benefits to customers later in a long-period time, and be evaluated by the customers accordingly, not immediately. Other services such as security services and motor insurance can be consumed - on providing benefits - by customers throughout the contracted period, and be evaluated accordingly. Therefore, it is inconsistent to say that services and goods

⁶ : They are Gronroos (1978), Sasser et al. (1978), Cowell (1984), Davis and McMillan (1987), Kotler (1988), Schwartz (1989) and others.

are differentiated by inseparable characteristics - produced, consumed (or used), and evaluated at the same time - in an absolute degree.

In other words, both production and sale of services performed by the same personnel of service firms in the presence (or consent in advance) of the customers differentiate services from goods. In accordance, Sasser and Arbeit (1976) stated "the service employee is a factory worker and sales person wrapped up in one". The interaction of producer and customer in delivery of services makes a great difficulty in maintaining standard quality of services (Lovelock 1984), and in covering wide geographic areas.

To overcome the inseparability of its offerings, a service firm should emphasize selection/training of its personnel in order to provide customer services politely, competently and tolerantly (Schwartz 1989), work faster and competently (Cowell 1987), use multi-site location base in order to deliver services effectively (Carman and Langeard 1980), and use the representatives of the service other than the creator-seller (Stanton 1971). By providing services available at the right place, at the right time, and by the proper personnel (Meidan 1983), service firms can overcome inseparability of their services.

3.1.3. HETEROGENEITY (OR VARIABILITY)

The combination of both intangibility of services and presence of the customers at the point of production and sale of services (Sasser et al. 1978, Zeithaml et al. 1985) causes a variability of services delivered. Some services such

as hair-stylist, business consultant and dentist are highly personalised⁷ so that the quality of the services offered is dependent on who provides them, and when and where they are provided (Lewis 1989). In addition, the labour intensiveness of many service firms causes a heterogeneity in services provided. For example, if one customer is served by several different personnel of the same service firm (eg. investment bank, waiters, air hostess) whenever he/she visits, the degree of service received may be varied. Therefore, it is difficult to achieve quality control, standardization (Cowell 1987) and centralized mass production (Sasser et al. 1978) of services.

Heterogeneity can exist in goods, as well as services. As customers purchase goods, their decisions may be affected by such factors as shopkeeper's behaviour and the conditions of after-services on the sale of goods. However, the following example can help to understand the heterogeneity of services. First, the core quality of management consulting is highly dependent on the contact-personnel of a firm. Second, the core quality of automobiles is ultimately dependent on the producer, not the dealer who have contact with customers.

The possible ways of overcoming heterogeneity of services offered may be to adopt a tight quality control through careful selection and continuous training of personnel, to provide pre-packaged services through the standardization⁸ and automated operations, and to use customer complaint systems and customer surveys regularly (Cowell 1987). In some sense, services can be more or less

⁷ : Because different service provider has different technical and customer relations skills, personalities, and attitudes towards work.

⁸ : As a solution of heterogeneity of the services offered, the introduction of standardization procedures to service firm can reduce personnel discretion (Sasser and Arbeit 1976).

uniformed and offered through adoption of a pre-packaged service and standardization. However, the process of service delivery will be still differentiated by a service provider.

3.1.4. PERISHABILITY

Perishability means that output cannot be produced in advance, and stored in order to meet future demand (Sasser et al. 1978) so that unused (unsold or idle) output will be lost forever. As a result, it is difficult to meet a demand fluctuation without a highly flexible or an idle productive capacity/system in some periods of time.

The perishable characteristic can be seen in both services and goods with a different degree and time span. Some unsold goods (eg. vegetables and bread in supermarkets) within the saleable life, for instance, must be thrown away, but other unsold goods (eg. salt, detergent) having long-period of saleable life can be kept in store to sell later. On the other hand, unsold airline seats can be wasted or sold on a cheap stand-by basis to minimize the loss to the airline firm. The idle time of repairman in a garage (and business consultant) can not also be compensated later.

Perishability of services can be overcome by matching supply and demand properly through price differentials in off-peak time (Cowell 1987), by adopting a reservation system, by using part-time staff, and by increasing customer involvement in delivering services (Sasser 1976).

3.1.5. NON-OWNERSHIP

Cowell (1984) added non-ownership of services over the four characteristics of services mentioned above. A customer can get access to or use services, but he/she cannot own them. A payment for services such as membership in a golf club and a room in a hotel, for instance, is usually for the use of, access to or hire of services. However, payment for goods such as a camera and cosmetics means transference of ownership of goods from a producer (seller) to a payer (buyer) for full use, even though restrictions of use and ownership can be imposed in the case of a hire purchase scheme. The method of overcoming this characteristic will be to stress advantages of non-ownership such as the matters of maintenance and/or security.

To sum up, the aforementioned five characteristics (ie. intangibility, inseparability, heterogeneity, perishability and non-ownership) can be used to distinguish between services and goods. However, the important thing is that the characteristics are applied to a relative degree, not an absolute degree, because goods can share these characteristics to a relatively weak degree. Therefore, the researcher can define services as "any activities having intangible, inseparable, heterogeneous and perishable features - either wholly or partly - and satisfying customers without transferring ownership to customers". The important thing to remember is that service firms, according to Sasser et al. (1978), sell atmosphere, consistent quality, pleasant, convenience, interpersonal relations, status, anxiety removal and others.

3.2. CLASSIFICATION OF SERVICES

Many attempts have been made to classify services based on the varieties of their operations, but the classification is not so easy because service sectors are quite varied. Of the many classifications given by academics, some of the important ones are dealt with in this section. By the activities of service firms, first, the British Standard Industrial Classification (1980) classified service firms into : (a) distribution, hotels, catering and repairs, (b) transport and communications, (c) banking, finance, insurance, and (d) other services such as public administration, education, recreation and others (Akehust 1989, p. 7).

Second, Stanton (1971) classified services into non-commercial services (eg. churches, museums, charities, the government) and commercial services (eg. personal care, health care, leisure, transportation and communications, insurance and financial services) which try to get a profit through their operations.

Third, by putting the length of time over which services yield utility, Daniels (1985) classified services into perishable services (eg. daily cleaning of offices, waste disposal) which yield utility over a short time, semi-durable services (eg. an advertising firm providing copy for the promotion of a product), and durable services (eg. long term business consultant, educational training, advice for investment).

Fourth, Thomas (1978) classified services into human-based operation and equipment-based operation. Services categorized into people-based operations are conducted by professionals, skilled labours and unskilled labours. Services categorized into equipment-based operations are delivered by the automated

machines, by skilled operators and by relatively unskilled operators in connection with the equipment.

Cowell (1984, p. 29) synthetically illustrated some of the current ways of classifying services to seller related bases, buyer related bases, and service related bases. First, according to seller related bases, services can be subdivided into : (a) nature of enterprise - private (for profit/non-profit) or public (for profit/non-profit), (b) functions performed - communication, consulting, educational, financial, administrative or health, and (c) income source - derived from market, market plus donations, donations only or taxation. Second, on buyer related bases, services can be subdivided into : (a) market type - consumer market, industrial market, government market or agricultural market, (b) way in which they are bought - convenience service, shopping service, speciality service or unsought service, and (c) motives - instrumental (ie. means to an end) or expressive (ie. an end in itself). Third, on service related bases, services can be subdivided into : (a) service form - uniform service or bespoke service, (b) human or machine based - human centred service or machine centred service, and (c) high or low contact - high contact service or low contact service.

3.3. CHARACTERISTICS OF BANK SERVICES

Bank products are services which have the following features⁹. First, they are intangible (Ennew 1990a) even though some tangibilities - certificate of deposits, plastic card, passbook - can be recognised (Wilson 1972). For example,

⁹ : These features will be presented to varying degrees in bank service products.

investment (or savings) account, as well as money transmission facility and insurance, of banks is a service which customers use banks for, and which is performed by banks. The customer does not obviously have anything but a piece of paper (eg. certificates of investment/insurance, passbook) which verifies he/she uses bank services. As a result, it can be said that bank services are performed, not owned (but used) by customers.

Second, bank services are not standardized. Even though the equipments are widely used as a supporting system, the businesses of banks are mainly conducted by the personnel of the banks, and it is very difficult to standardize the attitude of the personnel. Therefore, customers' evaluation of bank services can be strongly influenced by the attitude of the counter-personnel (who have contact with customers) of banks. For example, when a bank grants a customer a personal loan, the decision will be heavily dependent on the personnel who have contact with the customer, in some sense, although the use of a pre-made standard application form and an internal criteria for granting a personal loan can reduce the variability of services.

Third, bank services are performed (sold and produced) by the same personnel of a bank at the same place at the same time, so that it can be said that bank services are inseparable. As a result, bank services are perishable. They can not be stored. They are produced on demand, and often can only be produced in the presence of the customer. Therefore, the idle time of the counter personnel of banks can not be compensated later, but disappear forever.

Because of the characteristics of bank services, customers of banks encounter some uncertainty using bank services, and banks can not easily standardize their

services, control the quality of services, and communicate with customers properly, compared with those firms producing goods. Therefore, on developing competitive strategies, banks will be confronted with these issues, and they have to attempt to resolve them.

3.4. FUNDAMENTALS FOR DIFFERENTIATION OF SERVICES

In general, firms can stimulate sales, or gain/sustain competitive advantages from others through the modifying and practising all (or part) elements of marketing mix in the market. As a tool of marketing mix of firms, the 4Ps¹⁰ have been generally accepted. However, the peculiar characteristics of service firms' offerings make the use of the conventional 4Ps (originally developed for those firms producing and selling goods) insufficient as the marketing mix of service firms (Booms and Bitner 1981, Gronroos 1983, Cowell 1984, Magrath 1986, Bitner and Zeithaml 1987, Buttle 1989, Fifield 1992). The reason is that the attributes (eg. atmosphere and lay-out of internal fixtures, and attitudes of personnel who perform and deliver services), which are regarded as important factors over the sales of service products, are not properly accommodated in the existing 4Ps framework. Therefore, service firms are required to consider additional elements over the 4Ps.

Booms and Bitner (1981) modified the elements of the 4Ps and extended the 4Ps into the 7Ps (ie. product, price, promotion, place, physical environment, participants, and process) in order to provide a maximum usefulness of marketing mix as a tool which makes service firms to gain and sustain competitive advantages

¹⁰ : This was introduced by Neil Borden (1962), and popularized by Jerome McCarthy since 1964.

in the market¹¹. The main elements of the 7Ps mentioned by Booms and Bitner (1981) are prepared in appendix 3-1. Strongly assenting to the 7Ps, Cowell (1984, p. 71) said that "these seven elements could be at the heart of many service organisations' marketing programmes. Ignoring any of them could influence the success or failure of the overall programme".

The proper exercise of the 7Ps can provide competitive advantages for a service firm over its competitors, but the regulation imposed by governmental or quasi-governmental bodies to the certain service industries (eg. financial services, airlines) has restricted the full use of the 7Ps by service firms. For example, product innovation, distribution channel and pricing of banks may be controlled by the government, or the central bank of a nation. In these circumstances, the main difference among banks may be judged by their customers based on the attitude of bank personnel, delivery process, physical environment of bank, and promotion strategies.

Therefore, individual bank can achieve competitive advantages through the effective exercise of other elements of the 7Ps (eg. attitude of personnel, delivery process) which can not be controlled by regulatory bodies. However, a bank is required to understand all of the 7Ps in order to gain and sustain competitive advantages over competitors, because it is expected that the restrictions imposed over the exercise of some 7Ps will be sooner or later relaxed in step with the general trend of world-wide deregulation of financial markets.

Owing to the characteristics, the delivery of bank products - as well as other

¹¹ : Kotler (1990) added people, presentation and process, as sub-components of place, in the marketing mix of service firms, although he insisted to the use of 4Ps basically in the strategies of service firms by saying that "the basic marketing framework is universal" (Deutsch 1990, p. 15).

service products - is strongly influenced by the inter-related (not individual) exercise of the 7Ps. Therefore, as to developing competitive strategies, the elements of the 7Ps should be integrally delivered although they are separately studied.

3.5. *PRODUCT¹² FOR DIFFERENTIATION*

What customers get from a service firm and its products are benefits (Shostack 1982) so that products of service firms should be based on the needs and benefits sought by customers (Cowell 1984) to achieve competitive advantages. Service products, like goods products, are consisted of the core, tangible and augmented parts of products (Kotler 1988). The core part, based on its features, of service products represents an essential function of the service products. It has to satisfy the essential needs and benefits sought by customers. For example, to attract customers by providing benefits, savings products of banks should be featured as profitability, readiness of cash, and security of their savings with banks.

Tangible parts¹³ of service products make the core service product tangiblized to customers. Augmented parts of service products mean the additional services and benefits offered with tangible products. To achieve competitive advantages, tangiblized and augmented parts of service product should be over the customer's expectation (Levitt 1980), and be difficult in imitating by competitors

¹² : Kotler (1988, p. 445) defined a product as "anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need". Sasser et al. (1978, p. 18) said "service firms sell atmosphere, convenience, consistent quality, pleasant, interpersonal relations, status, anxiety removal, and so on".

¹³ : These are quality, brand name, physical environment of service firm, attitudes of personnel, process of service delivery, and others.

(Blois 1990). Here, the important thing is that extra costs incurred for augmentation of products should be less than the extra revenue which results from the augmentation.

If a service firm can offer customers differentiated service products with superior features, it can dominate the market, and maximize its competitive advantages without (or with minimized) use of tangible and augmented parts of service products. However, because the main features of service products are easily copied in the absence of patent due to their intangibility, and because introducing new service products is frequently restricted by regulatory bodies, a service firm is less likely to enjoy the superior features of service products by differentiating the core part of service products, without help of tangible and augmented parts of service products.

Therefore, the main aim of the tangiblizing and augmenting of service products should be to create the bases on which customers are able to perceive differences between the products of a firm and those of others.

3.5.1. QUALITY OF PRODUCTS

Customers' perception about the quality of service products is based on how well the content of the service and the manner of its delivery fulfil their expectations driven by their needs and previous experience with the service, by the references of others, by the image of the firm, and by the price of the service. Therefore, in order to meet the customers' requirements, service firms should offer service products which contain a variety of mixtures of service attributes as shown

in table 3-1. In considering the attributes, customers may choose service products offered by service firms in some degrees.

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 [Table 3-1] Major Determinants of Service Quality

ACCESS	=	Easy approachability in a firm in terms of time, convenient location, method and personnel
COMMUNICATION	=	Describing services accurately in customer's language
COMPETENCE	=	Possession of the required skills and knowledge of the personnel who deliver services
CREDIBILITY	=	Trustworthiness and reputation of a firm, and personnel style/characteristics of its personnel
COURTESY	=	Politeness and friendliness of the personnel
RELIABILITY	=	Consistency of performance and accuracy
RESPONSIVENESS	=	Timeliness, willingness and readiness to customers' requests
SECURITY	=	Confidentiality, free from danger, or doubt
TANGIBLES	=	The physical environment of service offered
UNDERSTANDING	=	The effort to understanding customer's specific needs, and providing individualized attention

Source : Sasser et al. (1978), Parasuraman et al. (1985), Knudsen (1986), Moore (1987), Berry and Parasuraman (1991).
 =====

Lehtinen (1985) said that the quality of service products is evaluated by three components : interactive, physical and institutional. First, the inseparability of services makes customers judge the quality of services through the behaviour of the personnel of service firms who have contact with the customers, and other customers in service production processes. Second, physical quality means the quality of tangible clues such as facilitating and surrounding goods. Physical quality can easily be defined and maintained because objective standards can easily be established. Third, the only quality dimension that can be experienced by the customer before the service production process - such as the outline or image of a service firm - can be called as institutional quality (Lehtinen 1985). High quality of service usually requires (a) staff education, (b) motivation and delegation of competence to make decisions, (c) use of adequate technology, (d) fair pricing, and

(e) interaction with customers¹⁴ (Knudsen 1986).

Higher service quality¹⁵ is likely to strengthen a service firm internally because it creates an environment of excellence that helps to attract experienced high calibre people into the firm. The greater satisfaction of customers through a high quality of service products is likely to lead the stronger loyalty, the fewer complaints and the less turnover of the customers, and then to give the firm more opportunities of cross-selling other service products to its current customers.

3.5.2. FOR AND AGAINST COPYING COMPETITORS

A bank can copy its competitor's products, instead of launching new products based on its R&D. Marsh (1988, p. 75) mentioned that the main reasons for copying a competitor's products are : "(a) saving in heavy development costs and scarce resources compared with developing and launching a completely new product, (b) copying is more likely to be commercially viable, especially if the competitor's product is successful, (c) spin-off benefits for own promotional efforts if the competitor's advertising has mad the product widely known and understood, and (d) copying the service has the effect of partially neutralising the advantages

¹⁴ : Interacting with customers, service firms can have the following benefits as : customer loyalty, knowledge about customer demography, fast problem identification, knowledge about customers' competence and new product ideas.

¹⁵ : The poor service can be caused by the following reasons. A firm fails in focusing the customer due from (a) the lack of awareness of customer expectations and service quality, (b) the lack of interpersonal relationships with customers, (c) the focus on meeting job requirements, not customer needs, and (d) the focus on content, not delivery quality. A firm has the lack of skills required to achieve quality originated from the inappropriate selection and inadequate training of its personnel. The personnel is encountered to the organisational and management obstacles characterized by unclear roles and responsibilities, poor teamwork and communication, outdated policies and procedures, frequent reorganization, and lack of leadership. A heavy emphasis on productivity and standardization of a firm, ignoring the quality of services, can cause poor services.

established by the competitor of being first. This is especially true if, when copying the service, it is also improved".

Nevertheless, there are also circumstances where launching an entirely new product would be better than a follow-market-leader approach by fully utilising all the resources of a bank. The reason for not copying a successful product of others is related to the practical issues, where organisational and marketing strengths and opportunities of a bank do not correlate with those of competitors. In addition, customer profiles of the bank may differ from those of others, so may the degree of a bank's personnel expertise and servicing capability.

3.5.3. PRODUCT MIX

A strategic aim over bank products should be to reduce the cost of products, to increase current customers' satisfaction and loyalty, to increase a chance of cross-selling to its customers, and to attract new customers (Opatow 1986). In order to achieve the strategic aim, a bank is required to have some sorts of product mix¹⁶ which can be described by a certain width, length, depth and consistency¹⁷ (Reidenbach and Pitts 1986).

¹⁶ : "The set of all product lines and items that a particular seller offers for sale to buyers" (Kotler 1988).

¹⁷ : The width of product mix refers to how many different product lines a firm carries (eg. payment facilities, deposit-taking, lending). The length of product mix refers to the total number of items in its product mix. This means how many products are provided by the firm regardless of the width of the product mix. The depth of product mix refers to how many variants are offered of each product in the line (eg. how many kinds of deposit accounts are provided by a bank). The consistency of product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. Depending on whether a firm wants to acquire a strong reputation in a single area or serve in several areas, the firm decide the degree of product-line consistency.

In response to the changing market, a bank can change its products in the following ways (Meidan 1984, Donnelly et al. 1985). First, a bank can extend its product ranges by adding new products over the existing products in the hope of increasing cross-selling chance. However, these products may not differentiate a bank from its competitors because new products can be easily copied, and because new added products can not properly appeal to the customers-eye due to many similar products prevailed in the market. Second, it can repackage/reemphasize its existing unknown and unused (but a high or moderate profitabilities are potentially expected) products through the intensive promotion. Third, it can modify its existing products by modifications of quality, function and style (Pride and Ferrell 1989) without any fundamental change of the existing products' features. Fourth, it can prune unprofitable/unattractive products to lessen a burden of a bank.

Bank products should be featured simple, flexible and unique (McIver and Naylor 1986). Simplicity means that products can easily be handled by personnel of a bank, presented straightforward to customers, and understood by customers easily. Flexibility of products extends application of products towards changing customers' needs. If its product(s) are perceived by customers as being unique in the market, a bank can easily obtain competitive advantages by differentiating itself from others. However, when deciding its product mix, a bank should carefully consider its internal capabilities and external conditions.

3.6. PRICE FOR DIFFERENTIATION

Gabor and Granger (1966) pointed out that customers often use price as an

indicator of quality, especially for products that are not easy to evaluate, or where other information is missing. It can be said that a well planned pricing strategy leads a firm to survive, to build market share, to prevent competitors from attempting to copy its products, to set image and positioning, to maximize current profit, to have product-quality leadership, and to maximize volume of capacity had (Andrew 1986, Channon 1986, Kotler 1988, Pride and Ferrell 1989). Even though cost is a basic factor to determine price, the nature of competitive environment, customers' willingness to pay, and intervention of the government (and regulatory authorities) play the important role in determining price.

3.6.1. NATURES OF PRICES

The unique characteristics of services create some differences in pricing services from goods. Owing to the intangible and heterogeneous nature of services, new customers of service products will encounter great difficulty in understanding what they get for their payment (Cowell 1984). Therefore, customers frequently view a price of service as a clue of a service product (Booms and Bitner 1981), and they may regard a product with a high price as the product with a high quality. The perishability of services imposes the need for flexibility of pricing decisions, and forces service firms to lower the prices occasionally in order to boost demand in the off-peak period (eg. standby airline seats).

Regulatory authorities have intervened pricing of service firms, especially in banks. Interest rates, viewed as both prices and costs of banks, have heavily been regulated in Korea, like many other countries around the world. Therefore, banks

have not viewed pricing as a tool for gaining a competitive advantage. However, the recent general world-wide trend of deregulation in financial sectors will sooner or later make a pricing strategy become an important tool for implementing competitive strategies.

The price of bank services is related to three main variables such as return, risk and readiness of cash (Hughes 1990). These variables are strongly related to each other. For example, a higher returns from investment are available only at higher risks and for limited readiness of cash. Those savings deposits with a committed term will earn a higher rate of return than those savings deposits on call or demand.

3.6.2. THE PRICING STRATEGIES¹⁸

A firm may set or change the price of products based on its cost structure of product ranges, demand of the products, and competitor's action. The four possible pricing strategies which banks can pursue in their products are regulator-set pricing, follow-the-competition pricing, cost-oriented pricing, and value/demand-oriented pricing (Colletti 1986, Marsh 1988).

First, the prices (eg. interest rates, charge) and features (eg. terms, conditions) of bank products can be decided by bank regulators¹⁹ (eg. the

¹⁸ : In addition to pricing strategies, banks are required to adopt proper cost strategies in order to attract more customers' deposits which generate profits of banks. Interest payments of banks to customers (in the return of their money deposits with the banks) are called as a cost of banks. Pricing strategies can be applied to cost strategies as well.

¹⁹ : Additionally, the prices of bank products can be self-regulated through professional codes of practice, cartels or conferences (Buttle 1989).

government authorities) so that banks must obey the prices and features set by the regulators. Therefore, they do not consider prices as a tool of gaining competitive advantages. In this case, the significant differences among banks will be the impact of promotion, the location of delivery channel, the delivery process of products, the physical environment, the calibre of their personnel and others.

Second, a bank can set prices based primarily on the prices of its competitors. It is relatively easy to pursue. However, a bank may encounter a potential difficulty in applying the level of prices set by others to its prices, because its internal capabilities and strategies are different from those of its competitors which set prices in the market it serves, and because it has to assume that others make a sound decision of a pricing. If a bank believes price is an important factor for image of product or corporate, it would be better to become a price leader.

Third, a bank can set a price of product based on its costs plus target margin. It allows a bank to recover costs and to achieve a desired margin in the spread over the matched assets. However, a major weakness associated with this strategy may be a difficulty in calculating the accuracy of the costs assigned to products, and it is the ignorance of the current demand and competition.

Fourth, on value/demand-oriented pricing, a bank can set prices, and promote its product on the basis of the product value or worth to the potential customers. This pricing tend to be determined by combination of such factors as the features and implied benefits of product, customer's alternative choice, customer's perceptions of a product's quality, and customer's capacity to pay (Colletti 1986). A bank which adopts this pricing can use either one or some of the following pricing methods as (a) moral pricing based on a notion of justice and fairness, (b)

promotional pricing on the basis for forcing the sales of the product, (c) skimming pricing by slicing off the top segment of demand with high prices, and (d) penetration pricing to force high market share through low prices (Winkler 1987).

Moreover, a bank can modify its basic pricing to discriminate between customers, product or service form, place and time (Channon 1986). In order to obtain competitive advantages through pricing policy, a bank has to review the relationship between the price level of a product and the perceived value of customers, either superior or inferior, on its products. In connection with pricing of bank products, Myers (1988) said price is not the most important element, if a bank has a good relationship with customers. He also said if a customer complains about price, the complaint may actually mean "You are not listening to me" or "You are not giving me quality service" (Myers 1988, p. 55). Therefore, the price of bank products should match customers' expectations on the products.

3.7. PROMOTION²⁰ FOR DIFFERENTIATION

It is apparent that a product can hardly be bought by a person who neither knows its existence, nor appreciates its utilities. Customers of a firm can be classified by their current degree of knowledge and usage of the firm and/or its products as following : (a) unawareness of the firm and/or its products, (b) awareness of existence of the firm, (c) knowledge of its main products, (d) liking for the firm and/or its products, (e) preference for the firm and/or its products, (f) initial

²⁰ : It is "the encouragement of the purchase of a product or a service" (Wells et al. 1989) through advertising, personal selling, sales promotion and public relations.

purchase of its products, (g) repeat purchase of its product(s), or (h) regular usage of its products (Watkins and Wright 1986). Therefore, a promotion task of a firm should be to encourage customers' movement from the stage of unawareness of the firm and/or its products to the stage of regular usage of its products.

The goals of promotion should be to inform, to persuade, and to remind customers about a firm and its products (Cowell 1990). Informative promotion delivers customers the general awareness of a firm and firm's products. Persuasive promotion is a method of differentiating a firm and its products from competitors, and ultimately encourages non-users of the firm and its products to use them by portraying and communicating the benefits of the products available. Successful persuasive promotion can create a strong image and reputation for the firm (Lambin 1976). Reminder promotion seeks to maintain a firm's presence in the market, and reminds customers of the range of products offered by the firm. Once a firm has created an image for itself, prestige and good reputation follow, and products will sell themselves unless the created image is shattered. An appropriately developed promotion strategy will identify what message to communicate, to whom, where, when, how often, by what means, and at what cost to achieve expected objectives (Channon 1986).

Because of the intangibility and heterogeneity, however, the purchase of services is perceived as being riskier than the purchase of goods. Accordingly, promotion of service firms has to focus on assurances and guarantees of quality, staff qualifications and training, and procedures designed to standardise the quality of the service (Buttle 1989). Therefore, a bank, as a service firm, is required to the use of much wider promotion mix than traditional ones. These include four

elements of traditional promotion mix²¹, facilitating goods, personnel, physical environment, tangible clues, personnel, and process of service delivery as shown in appendix 3-1. The traditional promotion mix are dealt in this section, and other extended elements of promotion mix are dealt in each of relevant sections of this chapter.

3.7.1. ADVERTISING²²

In 1925, Starch (quoted by Joyce 1974) said an advertisement must be seen, read, believed, remembered, and acted upon. For an advertisement to be effective, the messages of advertising should : (a) be logical, humanized, short and clear, (b) develop the unchanged image of a firm and its products, (c) minimize the amount of technical detail, (d) encourage the performance of the personnel, (e) be delivered to the right customers in the right voice, (f) be interesting to command attention initially, (g) encourage action to buy, (h) minimize post-purchase anxiety, and (i) encourage the satisfied customers to communicate their satisfaction with others (Meidan 1984, Cowell 1984, Marsh and Wild 1988, Wells et al. 1989).

An advertising message has maximum effect when it reaches the target customers at the point as they are most receptive. To produce the most effective advertising communications, a firm has to set clear and precise objectives for advertising (Whittaker 1990), and consider the characteristics and needs of the

²¹ : It includes advertising, personnel selling, sales promotion, and publicity.

²² : Defined by American Marketing Association as "any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor".

target customers for its product(s) and their reactions to the advertising message. Thereafter, a firm has to determine how the selected advertising media reaches potential customers, and how the message itself can best be constructed and presented to the customers. The more credible the source of information is, the more acceptable the message is likely to be to the customer (Watkins and Wright 1986). The greater the degree of positive and favourable expectation and identification of a firm, the greater the likelihood of customers using the products of the firm (Shostack 1977).

Because bank products, especially core features, can not easily be differentiated, advertisements of a bank and/or its products should create a unique and positive image of the bank along with augmented features of the products by using the creative tangible cues (Ford 1989, Andrew 1990) which keep and enhance the dignity and trust of the bank. Customers of banks, as well as other service firms, are likely to be attentive to any cues (eg. logo, motto, celebrity, animated cartoon, music, song and others), associated with advertisement of the product as clues about the features and quality of the product which the product itself can not visually provide (George and Berry 1981). Tangible clues associated with advertisement can help customers to understand the service product more easily.

However, Rathmell (1974, p. 96) said that "it is difficult or meaningless to promote an intangible product as a tangible product. An intangible does not lend itself to visual presentation. In addition, either visualization of a service being performed or a word description, whether written or spoken, offers only limited opportunity to inform, persuade or remind the service customer or prospect. As a result, the intangibility of services leads to the adoption of what many believe to be

a superior form of promotion".

On creating and sending advertising messages to customers, a bank should not infringe on the guideline of advertisement issued by regulatory authorities. In Korea, the Korea Advertisement Commission issued the Principle Ethics of Advertisement which all banks, as well as any other firms, should obey. The main contents are as follows. The purpose of advertisement is to build the public welfare and convenience. Advertising activities should keep social moral and manners, and gain public trust. Advertisement should be honest and fair, and it should not be exaggerated, be imitated and defame. The responsibility of advertisement clings to a sponsor, an agency and a medium of advertising. General principles of advertisement should be fit the General Principles of the International Standard of Advertising Activities²³. Even though these comprise of the generalized guideline of advertisement, the guideline stresses that advertisement should not be exaggerated, be imitated and defame, and it should keep social moral and manners.

3.7.2. PERSONAL SELLING

American Marketing Association defined personal selling as oral presentation in a conversation with one or more prospective purchase or the purpose of making sales. Additionally, Ennew (1990b) said it as a two-way form of communication, giving the customer the opportunity to query aspects of the product, and giving the sales personnel the opportunity to deal with the specific needs of each customer.

²³ : It is made by the ICC, describes the minimum ethics which should be kept on the advertising messages, and is applied to all kinds of the advertising activities. Advertising should send the messages of truth, honesty, dignity, non-defamation, non-abuse, non-imitation and so on.

Customers' involvement in the production process of services makes personal selling and personal contact between the customer and the personnel of a firm become the important factor of the promotion of service products. Personal selling starts either with a customer visit or a phone-call to a firm, or with personnel visiting or phoning customers. The important strategy for the former is to encourage customers to visit or phone the firm by help of advertising, and the strategy for the latter is to find the potential customers, and to approach them in the most effective and inexpensive way. The aspects of personal selling will be further studied in the latter section 3.10.2 of this chapter.

3.7.3. SALES PROMOTION

While advertising is to attract customers to a firm and its product, sales promotion is a tactical activity designed to push a product towards customers (Forsyth 1991). Sales promotion is commonly associated with short-term incentive tools such as money-off coupons, free gift or product samples. It is designed to stimulate quicker and/or greater purchase of a particular product by customers. For instance, by giving a gift to children and students, a bank can encourage them to open accounts.

To be successful, sales promotion should be used together with advertising (Kotler 1988). It should be related to a real customer need, it should be large enough to act as the incentive to use the service, its plan should be simple, it should have the specific beginning and ending dates, and its awards should be significant enough to attract interest of the target customers. The sales promotion can be used

when a firm tries to introduce new product, to encourage the trial of new product, to increase the customer usage, and/or to stimulate the impulse purchasing.

3.7.4. PUBLIC RELATIONS

As customers are faced with many undifferentiated products offered by many firms, their choice can be motivated by the perceived image of the specified firm (Ennew 1990b). Therefore, public relations are regarded as important elements to communicate with customers indirectly. These are articles in magazines and journals, donations to charity, sponsorship of worthy events and others (Lewis 1990). However, a bank should establish specific objectives for the public relations function so that money and effort of the bank is not dissipated over a wide spread of unfocused activities²⁴ (Channon 1986).

The objectives of the public relations function of a firm should be (a) to increase public awareness of the firm and its products, (b) to develop a favourable public image of the firm, (c) to build goodwill among the firm's customers, (d) to assist the recruitment of personnel, (e) to give a positive impact on the personnel of the firm, and (f) to emphasize the social responsibility and desire of the firm by providing help in local or a certain areas (Abratt et al. 1987, Marsh and Wild 1988).

As customers search for bank product(s), they may depend to a greater extent on sources such as word-of-mouth which they may perceive to be more credible and

²⁴ : However, the important thing to remember is, due to the intangibility of a bank products, the image and reputation of a bank can be easily diluted by anything else. For example, deliberated articles in newspaper or magazine, or sponsorship of a bank in the event which has an ill fame will deteriorate the image of the bank very easily.

less biased. Therefore, in order to compete successfully, a bank has to promote a corporate image and reputation along with its products because the products sold are intangible although it tries to deliver customers tangible clues over intangible products. On promoting a corporate image and reputation, a bank should try to deliver customers its courtesy, reliability, credibility, security, competence, responsiveness and others which can increase a positive corporate image of the bank. On the other hand, on promoting its products, a bank should try to provide tangible clues by using tangible cues (eg. symbol, celebrity, peculiar design and decoration of firm's premises, funny objectives) which can represent the features of the products, and which can emphasize the implied benefits of the products which customers desire to have.

3.8. PLACE FOR DIFFERENTIATION

All firms are concerned with the place of a delivery channel to make their products available and accessible to customers. The right location of the delivery channel could increase the availability and/or convenience of customers, and thus it increases its use and a revenue of the firm (Meidan 1984). However, the decision of delivery channel of service firms is different from that of those firms producing and selling goods because service firms distribute a capacity to produce, rather than an actual product, and because of the nature of customer involvement in the production process of service products. In addition, the use of intermediaries in service firms depends largely upon the extent to which the service can be standardized and reproduced on a wide scale basis with reasonable quality control

(Lewis 1985).

The choice of the delivery system will be determined by the availability of capital to invest, the need to build competitive structures, the choice of market segments, and the influence of the existing delivery systems (Howcroft and Lavis 1986) because the present level of investment in infrastructure and personnel can not easily be discounted.

3.8.1. LOCATION

The combination of target customers and products to be sold is a key factor in determining where premises of a firm or its delivery channels (branches) have to locate. Located in the targeted area, a firm can examine precisely what the customers want from the firm, and how they want to use the premises. In the established premises, it can project a corporate image and customer convenience so that it builds a potent barrier to competitive entry. Rathmell (1974) said, first, location of some service firms (eg. performed where the customer is, office security services, and repairing of breakdown car) may be of less importance than the speed of their response to customer requests. Second, some (eg. advertising services) can provide centralized service form with one (or few) specific location²⁵. Third, some (eg. banks) can provide services in a widely dispersed locations in terms of market potential.

The location decision of a firm is required to (a) understand who the target

²⁵ : Reasons for the concentration are due to the status associated with certain sites, low intensity of demand, the unimportant demand orientation, customer willingness to mobile, the historical development of complementary services in the close proximity to core services (Cowell 1984, p. 198).

customers are, and what-why-where-when-how customers want to buy its products, (b) consider characteristics of a firm (eg. size, strategy), product natures, nature of competitive environment, and environmental constraints, (c) establish objectives of distribution channels, and (d) identify the alternative distribution system such as types and number of intermediaries (Kotler 1988).

Doyle et al. (1979) said the considerations of selecting a specific site for delivery channels are based on the following factors : (a) trade area characteristics (eg. population size, area employment, retail expenditures), (b) location features (eg. either urban or rural areas, either wealthy or poor areas), (c) competitive situation (eg. number of competitive firms, any other attractive facilities), and (d) branch features (eg. site type, age of branch, number of staff, floor area, frontage). However, the most important factor over the aforementioned considerations on selecting locations of delivery channels is what the market requires such as convenience and accessibility.

3.8.2. TYPES OF DELIVERY CHANNELS

Delivery methods may be accomplished by either customers going to the service provider (eg. hairdresser), or the service provider going to customers (eg. mobile bank, security service) (Cowell 1984). However, the main problem of the typical delivery system of banks is passive (Howcroft 1990). That is, banks ask customers to make an effort and visit their premises, instead of searching customers aggressively, although some attempts for searching customers are introduced by adopting a mobile banking concept. Banks try to provide their

products for customers by developing a variety of delivery channels to open longer hours and cover wider areas, but they still deliver their services in their own premises by help of other facilities.

The choice of a delivery channel mix is mainly based on (a) maintaining a strong market position through attracting/retaining a large and profitable customer franchise, (b) introducing new delivery systems to counteract the cost characteristics of the branch network, (c) building a delivery system mix that can respond flexibly to changes in competition and the market-place, and (d) exploiting fully the benefits inherent in the existing infrastructure (Howcroft and Lavis 1986).

The delivery channels of banks can be classified into five types : full service core branch, satellite service or thin branch, remote self-service banking point, point of sale, and home banking. In a full service core branch, a bank can offer a full range of its products, personalised services such as negotiating loans, more complicated activities such as delivering advice, and guidance on more complicated business matters (Andrew 1986). Bank's satellite (or thin) branch served by a limited number of personnel can provide a limited range of its products. It can temporarily be established in a specific site (eg. campuses, trade fairs).

By help of technology, a bank can provide its services through remote facilities (eg. CDs/ATMs²⁶ in wall of supermarkets, EFTPOS, bank by mail and telephone), computer terminal installed at home, third parties other than bank facilities (eg. mortgage service through house builder), and central operations

²⁶ : ATMs can provide facilities for deposits & withdrawal, balance inquiry, and inter-account transactions. Consequently, ATMs save the time and labour of bank personnel, and give bank personnel more time to deal with counter customers. However, the possible inconvenience of customer caused by ATMs are computer breakdown, out-of-order, lack of cash, the possibility of unauthorized use, mistakes, impersonal nature and queues.

through credit card activities in wide areas (Andrew 1986, Howcroft and Lavis 1986). Customer acceptance of the automated delivery systems has resulted in declining lobby traffic of bank's premises, and less interaction with its counter-personnel (Caron 1987).

Self-service bank stations - equipped with CDs/ATMs without the presence of bank personnel - can be established in remote areas such as airports, bus terminals, supermarkets and others. The 24-hour availability of CDs/ATMs, which are installed either inside or outside walls of branches, or satellite or remote away-from-branch locations, can absorb customer demand during peak hours, or after regular opening hours or outside geographical coverage of branches. EFTPOS is a payment system that a customer pays for the purchase of goods and services through a debit card, instead of presenting cash or a cheque for payment (Meidan 1984). By using EFTPOS, banks and retailers can reduce administration costs due to the abolition of handling of cheques and cash, and customers can have the benefit of convenience (eg. no need to carry cash) and speed of payment (eg. no need to issue cheque) through the payment by a debit card (Meidan 1984).

Home banking²⁷ permits interaction between customers and a bank by means of the computer terminals connected between the bank and its customers. However, the development of large-scale home banking will be dependent on the availability of interactive telecommunication networks. In addition, central operations through credit card activities make banks overcome the factor of inseparability by offering credit to customers far outside their immediate trading

²⁷ : It can provide customers with statements, allow them to pay bills, transfer funds between accounts, and use other services.

area.

In order to reduce costs, and to spread the risks associated with new technology, banks can share facilities such as CDs/ATMs and EFTPOS. In addition, the joint development and use of new technology with existing banks has a potential to create a barrier to entry of others into the market, and then to maintain the market position (Howcroft 1990). As a conclusion, new technology improves productivity, and increases efficiency by reducing a room for processing errors, but human tellers are still primary means of product delivery, in spite of the trend towards electronic and remote facilities. The important thing to remember on introducing technology-based delivery methods is that the methods tend to provide customers with more rapid and convenient services, but they can draw customers out of bank premises by decreasing the personalised-touch with bank personnel. This may tend to weaken the link between customers and a bank, and thus cause the relaxation of customer loyalty. Nevertheless, technology will support the operations of the branch networks by permitting the branches to proceed greater volumes of business, and so in functional terms make them more efficient.

3.8.3. NUMBER OF DELIVERY CHANNELS

Products of a firm can be delivered to customers through either zero-level (direct) channel, one-level channel or multi-level channels (Kotler 1988). Due to the inseparable characteristic of services, some service firms (eg. business consultants, beauty shops) commonly use a direct delivery channel to maintain better control over how the service is provided and performed. However, those firms using a

direct delivery channel²⁸ have a disadvantage in geographic market coverage, compared with the firms using one or multi-level channels. Therefore, some service firms (eg. insurance companies) adopt one or more intermediaries, either by developing their own delivery channels, or by using others as either agents or dealers.

Banks can adopt all or some of the mentioned delivery channels in order to deliver their products effectively and competitively to customers. However, the important constraints which determine whole delivery systems of banks come from the restrictions (eg. in terms of the locations and number of delivery channels) imposed by their regulatory authorities²⁹, the other external conditions such as the development of technology, the resistance of customers about new delivery systems, and the capabilities of banks (eg. experts, capital).

In a deregulated environment, banks should have a proper strategy for their delivery system in order to attract more customers and to lessen some operating costs, either by closing down some existing branches (Kaufman et al. 1983), or by using the alternative delivery system. However, the closing-down branches may give customers a negative image of the bank. The increasing use of machines such as CDs/ATMs and EFTPOS may take many transactions away from the branch counters by reducing customer's queues in front of the counter personnel of a bank,

²⁸ : Producer sells products directly to customers through producer-owned shops, mail order, and/or door-to-door visit.

²⁹ : In Korea, the Branch Coordination Board has issued guidelines for branch administration since 1971, and regulatory authorities (eg. the BOK for commercial banks, the MOF for SPBs and other financial institutions) have controlled the matter of branches such as new establishment and movement of branches. Moreover, the establishments of the automated thin branches, temporary branches and ATMs in remote site are also required the licence from the regulatory authorities. - Written in the provision 3 of The Regulation and Instruction of the Office of Bank Supervision and Examination, OBSE (1990)

but it can create a more impersonal atmosphere.

The main purposes of a delivery channel should be (a) to deliver products more efficiently, (b) to increase customer convenience and satisfaction, (c) to keep current customers effectively, (d) to attract more potential customers, and (e) to increase market share. Therefore, strategies over a delivery channel should attempt to attract customers by providing the convenient and easy accessibility, and to satisfy the customer needs effectively and efficiently. Finally, the important thing is that distribution channels must be located where there are customers.

3.9. *PHYSICAL ENVIRONMENT³⁰ FOR DIFFERENTIATION*

Since customers in service firms cannot easily evaluate the quality of service products due to its intangibility, they are likely to evaluate the product quality which they hope to get based on physical environment such as environment of delivery channels, appearance of personnel, and/or tangible cues which are attached to the services delivered (Bitner and Zeithaml 1987). Physical environment clues send messages, help to shape an image for service firms, and set up the customer's expectations for what they are about to experience. Peripheral clues over service products, even though they cannot tangibilize the products wholly, can help customers to understand the products which they buy, and can enhance customer satisfactions. In line with that, Buttle (1989) emphasized the importance of physical environment in service products, by saying that customers' perception of

³⁰ : It includes exterior architecture, interior architecture and decoration, atmospheric conditions such as temperature and lighting (Baker 1987), and all tangible cues attached in the service products.

service products may be based upon impressions formed during exposure to a physical environment.

Therefore, the effective management of the physical environment is very important for service firms. Physical clues should be coordinated with the perceived image of a service firm by customers so that the decisions regarding design, decor and layout of the service facility should take the customers' response to these variables into account (Bitner and Zeithaml 1987). Physical clues adopted will exercise maximized impacts to customers when they are accompanied by the effective portrait of advertisements. By giving a unique physical environment³¹, a service firm can differentiate itself and its services from others, and ultimately it can gain competitive advantages in the market.

3.9.1. COMPONENTS OF PHYSICAL ENVIRONMENT

Physical environments which a bank can use to provide customers any cues about intangible services include (a) physical attributes such as physical size and shape of buildings, signs and logos of outside and inside premises, lay-out of fixtures and colour of the walls, (b) the appearance (eg. wearing bright-coloured uniform, smiling face) of the personnel, (c) the atmosphere of a service facility such as noise level, lighting and heating and the type of background music adopted, and (d) tangible clues over the service products such as design and colour of passbook and plastic cards. In line with this, Baker (1987) broke down the components of the

³¹ : Cowell (1984) said that "physical evidence contributes to the personality of an organization - a personality which may be the key differentiating feature in highly competitive and undifferentiated service product markets".

physical environment into such three basic components as ambient factors, design factors and social factors, as itemized in table 3-2.

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[Table 3-2] Components of The Physical Environments

AMBIENT FACTORS = Background conditions that exist below the level of customers' immediate awareness

Air quality (temperature, humidity,
circulation/ventilation)
Noise (level, pitch)
Scent
Cleanliness

DESIGN FACTORS* = Stimuli that exist at the forefront of customers' awareness

Aesthetic (architecture, colour, scale, style,
sharp, materials, texture, pattern,
accessories)
Functional (layout, comfort, signage)

SOCIAL FACTORS = People in the environment

Other customers (number, appearance, behaviour)
Service personnel (number, appearance, behaviour)

*. Interior and exterior

Source : Adopted from Baker (1987), p. 80.
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Because ambient factors usually are taken for granted, their influence is typically neutral or negative (Berry and Parasuraman 1991). In other words, customer awareness of ambient factors more likely provokes avoidance behaviour than approach behaviour. Design factors have a comparatively greater potential for producing positive customer perceptions, and for encouraging approach behaviour. The appearance of service personnel is critical because customers typically do not distinguish between the service and the service provider (Berry and Parasuraman 1991).

By saying that "the branch should be like a consulting room where customers

come for advice, rather than a shop where they just come in, buy and leave", Pirrie (1990) of Lloyds Bank emphasized the importance of the physical environment of banks. The interior design of a bank can be used to create a particular psychological environment to customers. For instance, if a bank wants to position itself as a user-friendly bank, the interior should resemble a living room with sofas, green plants/flowers and smiling personnel. If a bank wants to position itself as a hi-tech efficient bank, the interior should show a lot of computers and hi-tech equipment and busy-working personnel (Deutsch 1990). Besides, external evidence (eg. shape, type and colour of the outside walls of the premises) of a bank can help customers to project the image of the bank. A bank has to be visually convenient to find in the street. For a bank having multi-located branches, a united image of all branches with the uniformed branch design and lay-out (Meidan 1984) is desirable because it can provide a psychological reassurance for customers in that no matter which branch they enter they are familiar with the inside of its premises which they are using.

Finally, a bank has to adopt a suitable architectural theme in its premises providing attractive feelings for key customers, as well as not giving repellent image to any other customers (Meidan 1984). The reason is that some customers may be psychologically hindered to enter the premises of a bank because they consider using a certain bank depreciates their social status due to the inferior physical environment provided by the bank. Thus, the atmosphere and ambience in the premises of a bank can be very importantly used to keep and attract its existing and potential customers.

3.10. PARTICIPANTS FOR DIFFERENTIATION

Customers of service firms are exposed to two groups of participants of the environment in which services are delivered. They are the personnel of firms who have contact with customers, and other customers in the service production and consumption process.

3.10.1. SERVICE DELIVERY PERSONNEL

Personnel of service firms consists of customer contact personnel (eg. counter clerk in banks) and non-customer contact personnel (eg. researcher and computer operator). Personnel, especially counter-personnel, of a service firm are particularly important in situations where - in the absence of clues from tangible products, and in the interaction between customers and its personnel in the service production process - customers form an impression of the firm from the behaviour and attitudes of its personnel³² since they become the most tangible evidence of the quality of the firm and its products (Bessom and Jackson 1975).

Personnel of a service firm perform one or more of the following tasks : (a) to find and cultivate new customers, (b) to promote its products, (c) to provide various its products for customers, (d) to evaluate customer quality, and (e) to allocate scarce products during product shortage. The jobs in the counter-personnel

³² : They include customer contact personnel and non-customer contact personnel who support contact personnel without direct contacting with customers. However, customers may try to find any cues about a service firm through the behaviour and attitudes of any personnel of the firm as contacting with them both inside premises of the firm and in informal meeting (eg. social meeting, sport club) outside premises of the firm. Thus, service firms have to treat non-customer contact personnel as the same as customer contact personnel in terms of recruitment and training.

of a bank are increasingly complex. That is, the positions demand computer skills, product knowledge, sales ability, and the ability to resolve customer conflict (Goslin-Jones 1989).

A bank can maintain and improve the quality and performance of its personnel through adopting the following methods. First, it should select those who are sales-minded, customer-conscious and market-oriented as its personnel through the careful and systematic recruitment procedures by adopting a group discussion among job applicants, an aptitude test (Buttle 1989) and other methods.

Second, the selected personnel should be carefully trained to devote their best capabilities for the bank and the sale of its products with having the following knowledge : (a) the bank's history and objectives, and structure, (b) how the products are produced, and how they function in various uses, (c) the different types of customers, and their needs, motives and habits, (d) the strategies and policies of the bank and its competitors, (e) how to make effective sales presentations, and (f) administration procedures and responsibilities.

Third, a bank is required to understand the qualities of personnel required to undertake a certain job, and its personnel have to understand their duties and responsibility clearly. The personal style of the personnel who perform a certain duty must also fit the style of their duty. Kotler (1990) said that "people are very important in the service delivery business, as opposed to the product delivery business, where one reaches for the product on a shelf. The service customer will judge the product partly by the service provider - is he or she friendly, knowledgeable, etc. So service marketers must carefully select, train and motivate their front-line personnel. This task is called internal marketing" (interviewed by

Deutsch 1990, pp. 15-17).

Internal marketing is of crucial importance since the personnel may be reluctant to sell a service product which they do not understand and accept properly (Gummesson 1987, Campton et al. 1987). Sasser and Arbeit (1976) pointed out that a successful service firm must first sell its service to its personnel before it sell its service to customers, and it has to regard its personnel as its most important customers. Therefore, overall objectives of the internal marketing should be to educate its personnel to understand and accept (buy or use) its service products as an internal customers, and to motivate the personnel to sell the products to customers.

Fourth, the appearances and attitudes of a bank personnel can influence critically on the levels of customer satisfaction (Cowell 1984). The appearance of personnel can be easily controlled by a bank through the use of uniforms and styles of dress. The creative and unified appearance of the establishment throughout branches and offices can help the creation and retention of the image of the bank to the customers. In addition, a bank has to try to provide amiable and amicable working conditions for its personnel to encourage their attitudes toward customers.

Fifth, a bank can establish the set of procedures for some of its service delivery in order to ensure that the service delivery is performed by its personnel in a consistent way³³. A bank is a human-intensive business, although machines (eg. CDs/ATMs) or other technical resources may be substituted in the production process (Gronroos 1981). Therefore, it is difficult to expect the standardized performance of the personnel. However, the well-trained personnel can effectively respond to unforeseen customer' requirements with a creative manner in the

³³ : "There are dangers though that such practices can become too mechanistic. Most organizations have to strike a balance between too much rigidity in their systems and too much flexibility. Procedures have to be flexible enough to tolerate the ambiguity of customer variety" (Cowell 1984, p. 210).

delivery process of products, and then they can increase customer satisfaction, where normal procedures fail.

Sixth, by introducing technology to replace human endeavour in the delivery of services, a bank can minimise the number and significance of personnel-customer interactions in order to reduce the variability of interactive quality of service delivered (Buttle 1989). However, adopting technology to reduce personnel-customer interactions, a bank has to consider customer acceptance of the new methods of production and delivery which imply less contact between customer and its personnel, and, as a result, the possibility to reduce customer loyalty.

Finally, a bank should evaluate the quality and performance of personnel accurately, and accordingly it has to reward its personnel with a fairness in terms of promotions and salary increases (Klatt et al. 1985).

3.10.2. INTER-ACTION BETWEEN PERSONNEL AND CUSTOMERS

Customers in a service sector participate in the production process of services, purchase and use services, and influence other customers as producers and users of services (Cowell 1984). As the producer and user of services, customers determine the service package which they want, inspire and play an active role in the development of the service, and affect the quality of the service through their active participation in the service delivery process (Lehtinen 1985). The style of customer participation in service delivery process may be dependent on the lifestyle and the personal attitudes of the customer (Lehtinen et al. 1983), and this may cause a difference of the service delivered.

The personnel of a service firm can clearly (a) explain what it offers, (b) understand customers' requirements fully (Letts 1991), (c) create impressions of trust, honesty, friendliness and responsibility (Meidan 1984), (d) cultivate strong personal relationships with customers, and (e) express customers' firm's willingness to help through immediate and interactive contact with its customers. By stressing the importance of a personal interaction between the counter-personnel of a bank and its customers, Berry and Kanak (1990) also pointed out that "banking machines or banking advertisements cannot produce genuine client relationships; only bankers can do this". Especially, in the circumstances that almost all banks offer undifferentiated products, customers may choose to stay with a particular bank or begin a new banking relationship based on how they perceive the value of that relationship.

The common element in all relationship marketing strategies is cementing the relationship with customers, transforming indifferent customers into loyal ones, and serving customers as clients by providing the incentive that customers are given to remain a customer for a long time. Berry (1983) said that the practice of relationship marketing is most applicable to service firms when one (or some) of the following conditions exists: (a) there is an ongoing or periodic desire for the service on the part of the service customer, (b) the service customer controls selection of the service supplier, and (c) there are alternative service suppliers, and customer switching one to another is common. Therefore, it seems that the concept is critical for those service firms vulnerable to customer loss due to intensifying intra-type and/or inter-type competition.

3.10.3. IMPACTS OF OTHER CUSTOMERS

As the producer and user of services, customers influence on either other customers inside the service environment at the same time, or outside customers through their words-of-praise (or -complaint) about the services. For example, an ex-customer of a restaurant might tell potential customers of it, that he (by experience) knows that it is a dull place, changing the communication about the restaurant in an unfavourable manner. Customers can be also influenced by other customers in terms of the numbers and appearance, behaviour and age level. For example, some luxurious hotels request to their customers to wear formal suit in their hotels to maintain the conservative image, and to attract wealthy customers.

Banks generally deal with all kinds of customers, so it is difficult to create an atmosphere to attract certain kinds of customers, without hindering other customers. However, a bank can shape and publicize the image of its current customers in order to attract those customers who want to associate with the image of its current customers by help of effective advertisements, to some degree.

3.11. SERVICE DELIVERY PROCESS³⁴ FOR DIFFERENTIATION

The production process and production personnel of firms which produce physical goods are invisible to their customers. However, service firms produce and sell services at the same time in the front of customers so that their production

³⁴ : The process was defined by Booms and Bitner (1981) as "the actual procedures, mechanisms, and flow of activities by which the service is delivered".

process are visible to their customers. Under high personal contact situations of a service firm, those taking part in the provision of the service delivery may be evaluated in terms of their technical and customer-related skills, personalities, attitudes toward their work, consistency of quality performance, and appearance (Grove and Fisk 1983). For example, the unfriendly bank teller, the inarticulate mechanic, and the disenchanted waitress can create a negative image which can influence customers satisfaction with the service. Therefore, if the process of service delivered is poor, customers will perceive a poor service quality (Lewis 1991). In addition, customers can involve the process of services delivery (production and sale), and they can influence the performance of the personnel of service firms, and ultimately the quality of service products delivered.

Due to the intangibility of services delivered, customers of service firms tend to regard the service delivery process as an important clue of services, so they tend to be interested not only in what they receive as an outcome of the production process, but also in the process itself (Gronroos 1984). In services delivery process, customers have contact with those personnel who deliver services either throughout the whole process of services directly (eg. barbershop, hospital), or at the initial stage of the process, or they may use indirect methods of delivery process (eg. banking through CDs/ATMs). Based on the role of a customer - the dimensions of power and commitment - as a participant in the service production process, Goodwin (1986) classified the service production (delivery) process into four groups of customer involvements as follows :

Customers in high power and high commitment may believe that their power in the service production process is equal to or greater than service provider (eg. hair stylists, house cleaner). They

are likely to exercise their power. However, they expect to maintain an ongoing relationship and/or friendship with service provider.

Customers in high power and low commitment may exercise a high power in the service production process, but they may not expect long-term relationship with service provider (eg. airline cabin service, individual bank clerks).

Customers in low power and high commitment may perceive that the power of service provider (eg. university education, counselling, medical services) is higher than that of them. They tend to expect long-term relationship with the provider. They may be dependent on the provider.

Customers in low power and low commitment may expect only a brief interaction with service provider (eg. professional tax preparers, funeral directors). They are less likely to cooperate in the production process of service, mainly due to their lack of capability about the process.

The process of service production is dependent not only upon the actual procedures, mechanisms and flow of activities by which the service is delivered, but also upon the behaviour of personnel and the relationship between personnel and customers. A smooth running operations offer a firm competitive advantages particularly where differentiation between service products are minimal. Therefore, in order to make the production process smoothly, a bank should have a well-defined work design³⁵. Work design describes the activities and duties of the personnel, the requirements of the production process, and the equipment and materials used in the production process. Therefore, good work design will usually increase motivation of personnel.

The important decision in the process of service delivery is what level of capacity is suitable (Cowell 1984). Overcapacity may make the process uneconomic,

³⁵ : "Work design is a broad term meaning the process of defining tasks and jobs achievement both organizational and employee goals. It must, therefore, take into account the nature of the business (organizational interest), the organizational structure, the information flow and the decision processes, the differences among employees, and the reward system" (Klatt et al. 1985, p. 131).

but too little can cause bottleneck situations in service delivery and create customer resentments because of a longer waiting time. For example, at the congested bank counters, if those customers, who want to have several services at the same time, are required to move from counter to counter, they may feel annoyance with services provided. However, if a bank tries to provide those customers with requirements at the same counter by the same counter-personnel, without asking customers to move to another counter, it will reduce the efficiency of service delivery, and is required that all personnel have to have the knowledge of all services provided by the bank. As a solution, a bank can set up one (or a few) of the multi-services counter, with the ordinary counters providing one or few simplified services, to absorb those customers who require to use several services at the same time.

However, it is not easy for a bank to identify and have an adequate capacity, mainly due to the lack of a buffer such as inventory. In order to reduce the variance of services delivered, and to achieve consistency in the service delivery process by limiting service options, a bank can clearly demarcate the duties of its personnel, limit discretion of its personnel, standardize delivery process and substitute technology for its personnel. However, the standardization of the process has its disadvantages as follows : (a) variations in customers needs tend to be ignored, (b) customers may be tired of a uniformed and homogenized services, and (c) service may start to deteriorate as the personnel performing highly repetitive tasks become bored and robot-like in their dealing with customers (Lovelock 1987).

Nevertheless, in order to provide the production process effectively and to satisfy customers in the overall process of service delivery, a bank can adopt some

of the methods shown in table 3-3. Moreover, the personnel of a bank have to understand general production processes, be familiar with the facilities (eg. materials and equipments), build and develop trust with customers, understand the determinants of customer behaviour and habits, and promote the implied benefits of the services.

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 [Table 3-3] Actions to balance supply and demand in services

SUPPLY SIDE	DEMAND SIDE
Inventory wherever possible (eg. spare capacity, people)	Have customers wait in favourable environments
Schedule workers based on demand (eg. shift working, part-time)	Schedule customers (eg. appointment systems)
Subcontract work to other service organizations	Provide substitute services or goods (eg. automatic tellers)
Have peak-time efficiency routines (eg. only do essential jobs)	Diversify demands (eg. enter counter seasonal markets)
Increase customer participation in the production process (eg. self-service)	Turn customers away during peak demand period (eg. differential pricing)
Share services/facilities with other service organizations	Use marketing to shift demand (eg. advertising campaigns)
Improve the service system (eg. use technology where possible)	Change customer expectations of service (eg. through usage)

Source : Adopted from Cowell (1984), p. 247.

Customers, who do not have an opportunity to complain about the poor service received, will damage the reputation and image of a bank through word-of-mouth influence on the existing or potential customers, change to other banks, and make other customers change (Cowell 1984). Therefore, a bank should make it easy for customers to complain about the poor services which they receive. Finally, with respect to the most important consideration over the service delivery process, a bank has to understand the whole delivery process from the customer's (not bank's) point of view, and try to reduce customers inconvenience.

3.12. SUMMARY

Bank products are services which are intangible, heterogeneous, inseparable, perishable and performed (not owned). Because of the characteristics of bank services, customers of banks encounter some uncertainty using bank services, and banks can not easily standardize their services, control the quality of services, and properly communicate with customers, compared with those firms producing goods. Besides, banks can not easily differentiate their services from others mainly due to the intangible nature of their products. Therefore, on developing competitive strategies, banks are required to exercise the extended 7Ps (ie. product, price, promotion, place, physical environment, participants and process) effectively in the market in order to overcome the problems caused by the unique characteristics of bank services, to some degree.

Less freedom to differentiate the quality and/or price of products provided contributes to greater competition in the market. Where customers believe that product differences are only marginal, it is very difficult for banks to sell products distinctively (Muller 1991). In such circumstances, only a very few criteria are likely to be used for the basis of a meaningful competitive advantage in the market. Here, the important thing is the methods of differentiation in a bank should be based on factors which have a real effect on the customer's choice of products supplied, and which can not be easily and quickly imitated by its competitors.

***** CHAPTER FOUR *****

THE FINANCIAL SYSTEM/REGULATIONS OF KOREA

4.1. THE FINANCIAL SYSTEM OF KOREA

The financial system of Korea can be subdivided into monetary financial institutions and non-banking financial institutions (NBFIs). Monetary financial institutions are comprised of the Bank of Korea, the central bank, and DMBs. DMBs comprise of commercial banks and specialized banks (SPBs). NBFIs, which are not generally allowed to receive demand deposit from the public, include development institutions, investment institutions, savings institutions, and insurance institutions.

The Bank of Korea (BOK) was established on the 12th of June 1950 under the Bank of Korea Act (BOKA). The BOK is located under the control of the Monetary Board¹, and the Governor of the BOK is appointed by the President of

¹ : It is formed by the Minister of Finance (its chairman), the Governor of the BOK, and the other seven commissioners who have 3 years tenure and are appointed by the President of Korea - one recommended by the Economic Planning Minister, two recommended by DMBs, two recommended by the Minister of Commerce and Industry, and two recommended by the Minister of Agriculture, Forestry and Fisheries (Provision 8 of the BOKA). It is the supreme policy-making organ of the BOK, and adopts a council system in order to prevent the supreme policy making of the central bank by a minority group and pursue the democratization and neutralization of policy making (BOK 1986, p. 10). Its general responsibilities are (a) to formulate monetary and credit policies through the change of the monetary base of the nation (through the policy of reserve requirement ratios, rediscount rates and open market operations) or the exercising direct control of the activities of DMBs (through the deposit of the monetary stabilization account, credit ceilings, and the control of interest rates), (b) to supervise DMBs generally in order to keep the soundness of financial system and credit order of the nation, and (c) to instruct and control the general activities and management of the BOK (BOK 1986, pp. 13-14).

Korea through the recommendation of the Minister of Finance (MOF). The general duties of the BOK are (a) to control the currency circulation and to distribute funds effectively, (b) to keep the sound operation of the financial system, (c) to act as a banker to the government and to DMBs, (d) to issue bank notes and coins as approved by the government, (e) to engage in foreign exchange business, and (f) to collect and publish the statistical data of the general economy².

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 [Table 4-1] Comparison of Total Assets of FIs-HSM

	1981	1984	1987	1990

Total Financial institutions	100.0 %	100.0 %	100.0 %	100.0 %
<u>DMBs</u>	60.2	55.5	49.0	41.9
Commercial banks	37.1	33.9	29.4	29.2
Nationwide commercial banks	(27.7)	(24.6)	(21.0)	(22.2)
Local banks	(4.3)	(4.5)	(4.6)	(4.8)
Foreign bank branch in Korea	(5.1)	(4.7)	(3.8)	(2.2)
Specialized banks	23.0	21.7	19.6	12.7
<u>NBFIs</u>	39.8	44.5	51.0	58.1
Development institutions	18.8	15.8	10.8	8.3
Investment institutions	7.1	10.6	12.2	15.5
Savings institutions	11.3	13.4	21.7	26.7
(Trust accounts of banks)	(6.0)	(6.5)	(10.9)	(16.1)
Life insurance institutions	2.6	4.6	6.3	7.7

Source : Several of economic statistics yearbook of the BOK, and
 The statistics of credit union, Vol. 109., Nov. 1990.
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The comparison of total assets of FIs-HSM shows that the portions of nationwide commercial banks (NCBs), as well as SPBs, in total financial institutions measured by the scale of their assets declined from 27.7 percent in 1981 to 22.2 percent in 1990, as shown in table 4-1. It mainly results from the dramatic expansion of the share of the assets of investment institutions and savings institutions, especially in trust accounts of banks which are treated as non-banking

² : Provisions from 42 to 101 of the BOKA.

activities. However, local banks have continuously increased their portions in the total assets of FIs-HSM.

4.2. DEPOSIT MONEY BANKS (DMBs)

DMBs have been controlled under several different acts, for example, commercial banks are subject to the General Banking Act (GBA), and each of the six SPBs is subject to each of the six special banking acts respectively. However, the activities of DMBs are generally the same mainly because SPBs have expanded their activities into the areas of commercial banks, and commercial banks have engaged in the activities of SPBs (eg. engagement of the mutual instalments deposit introduced by the Citizens National Bank, as one of SPBs).

[Table 4-2] Accounts of DMBs		(in 10 bn Won)			
	End of 1981	1985	1990		
Total Assets	3418 (100.0 %)	6849	15844	(100.0 %)	
Domestic assets	3064 (89.6)	6344	15162	(95.7)	
Cash	375 (10.9)	676	2354	(14.9)	
Due from	163 (4.8)	714	960	(6.1)	
Securities	317 (9.3)	459	1439	(9.1)	
Loans and discounts	1596 (46.7)	3381	7403	(46.7)	
Loans in foreign cur.	278 (8.1)	329	828	(5.2)	
Fixed assets	92 (2.7)	235	465	(2.9)	
Others	243 (7.1)	552	1713	(10.8)	
Foreign assets	354 (10.4)	505	683	(4.3)	
Total Liabilit./Net worth	3418 (100.0 %)	6849	15844	(100.0 %)	
Domestic liabilities	2597 (76.0)	5133	13803	(87.1)	
Deposits	1719 (50.3)	3126	8427	(53.2)	
Deposits in foreign cur.	80 (2.3)	94	896	(5.6)	
Negotiable CDs	-	108	680	(4.3)	
Borrowing from BOK	337 (9.9)	907	1111	(7.0)	
Debentures issued	5 (0.1)	34	173	(1.1)	
Others	457 (13.4)	863	2516	(15.9)	
Foreign liabilities	651 (19.0)	1413	730	(4.6)	
Paid-up capital	104 (3.0)	178	690	(4.4)	
Surplus	66 (1.9)	127	621	(3.9)	

Source : Economic Statistics Yearbook 1989 and 1991 by The BOK

As shown in table 4-2, the scale of total assets of DMBs expanded 4.6 times from 1981 to 1990. The proportions of the individual items of DMBs' accounts had more or less the same trends from 1981 to 1990, but foreign liabilities in the total liabilities and net worth declined.

4.3. COMMERCIAL BANKS

Commercial banks are composed of NCBs, local banks (LBs) and foreign bank branches in Korea. They are subject to the GBA - as well as the regulations, instructions, and orders which are from time to time issued by the Monetary Board and/or the BOK in accordance with the BOKA.

Commercial banks have shared the following five common features (BOK 1986³, Song and Chei 1991). First, they operate a branch banking system, with a number of nationwide networks in eleven NCBs and mainly province-wide networks in ten LBs, but foreign bank branches in Korea are generally restricted to have one branch or one representative office. Second, they engage in not only short-term (generally up to 3 years term) financing business, but also long-term (generally up to 15 years term) financing business. Third, under the demarcation and permission of the GBA, commercial banks have engaged in (a) not only such original banking activities as taking demand and time and savings deposits, lending to households and enterprises, remittance and collections, and acceptances and guarantees, (b) but also peripheral and non-banking activities such as foreign exchange transactions, receipts and disbursements of treasury funds as treasury agencies of the BOK,

³ : The Bank of Korea (1986) : Financial System of Korea, pp. 5-7.

factoring, trust and credit card business. The detailed contents of commercial banks' activities which are related to the operations of HSM are in appendix 4-1. Fourth, they tend to depend heavily on borrowing from the BOK in order to meet chronic shortages in their own loanable funds due to Korean enterprises' reliance on commercial banks for their financing during rapid economic development in the absence of a well-developed money and capital market. Fifth, in order to maintain publicity of commercial banks and an overall sound financial system, the ownership of commercial banks by the same person (and his/her relatives or companies) is generally limited to no more than 8 percent of the issued shares which have voting right in the general meeting.

4.3.1. NATION-WIDE COMMERCIAL BANKS (NCBs)

They have operated on a nation-wide scale with a network of branches widely distributed throughout the country. They were nationalized twice, once in 1945 (after the liberation from Japan) and later in 1961 (after the military revolution). As a process of gradual denationalization since 1972, five NCBs were privatized between 1981 and 1983, along with the licences of both Shinhan Bank (formed in July 1982 by mainly the investment of Korean residents in Japan) and KorAm Bank (formed in March 1983 by a joint venture between Bank of America and Korean entrepreneurs) (BOK 1986).

After that, three new NCBs (ie. Dong-hwa Bank, Dong-nam Bank and Dae-dong Bank) were given to license to establish in 1989, and the Korea Exchange

Bank⁴ - established as one of SPBs in 1967 on the Korea Exchange Bank Act to deal with foreign exchange business - was privatized and converted to one of NCBs in January 1990.

As a result, the total number of NCBs reached eleven at the end of 1990. However, it is expected that the total number of NCBs will increase in the near future, because 32 investment and finance companies - which will be studied later on in this chapter - may become either NCBs or LBs in virtue of the government's policy intention about the conversion of them into commercial banks or securities companies in order to encourage competition among financial institutions. At present, nine of the eleven NCBs have their head office in Seoul (except Dong-nam Bank in Pusan, and Dae-dong Bank in Daegu). The detailed contents of NCBs are shown in table 4-3, and the total number of domestic branches of NCBs was 1,695 at the end of 1990.

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 [Table 4-3] The NCBs in Korea (end of December 1990)

<u>Name of Banks</u>	<u>Established in</u>	<u>No. Branches</u>
Cho-heung Bank	1897	258
Commercial Bank of Korea	1899	250
Korea First Bank	1929	240
Hanil Bank	1932	243
Bank of Seoul and Trust	1959	269
The Korea Exchange Bank	1967	200
Shinhan Bank	1982	90
KorAm Bank	1983	47
Dong-hwa Bank	1989	36
Dong-nam Bank	1989	32
Dae-dong Bank	1989	30

* 1. The number of branches includes only domestic branches.

Source : Data of the Office of Bank Supervision and Examination
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⁴ : Because its specialization has faded away due to its engagement of the activities of commercial banks widely, and the engagement of foreign exchange business by other DMBs, the government privatized the Korea Exchange Bank as the first step of the privatization plans of SPBs.

4.3.2. LOCAL BANKS (LBs)

The licence to establish ten LBs between 1967 and 1971 under the GBA was intended to achieve a balanced dispersion of banking businesses, to promote regional development, and to maximise the mobilization of domestic saving (BOK 1986). LBs can engage in all of the activities permitted to NCBs, but their major customers are the local public and local enterprises, due to the restriction on the geographic operation areas (mainly within the province) and relative small-scale of branches, compared with NCBs and SPBs. Therefore, LBs have been given by regulatory authorities a preferential treatment on interest rates ceilings. For example, they are permitted to pay higher interest rate (up to 0.5 %) on time deposits having more than a 1 year term and on instalments savings deposits than those of other banks (BOK-1 1989).

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 [Table 4-4] Local Banks in Korea (end of Dec. 1990)

<u>Name of Banks</u>	<u>Head Office</u>	<u>Established in</u>	<u>No.Branches</u>
Daegu Bank	Daegu	Oct. 1967	104
Pusan Bank	Pusan	Oct. 1967	116
Chungchong Bank	Daejeon	Apr. 1968	63
Gwangju Bank	Gwangju	Nov. 1968	70
Jeju Bank	Jeju	Sep. 1969	27
Gyeonggi Bank	Incheon	Dec. 1969	83
Jeonbug Bank	Jeonju	Dec. 1969	38
Gangwon Bank	Chooncheon	Apr. 1970	29
Gyeongnam Bank	Masan	May 1970	74
Chungbuk Bank	Chungju	Apr. 1971	34

* 1. The number of branches includes only domestic branches.

Source : Data of the OBSE
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Their share of total assets in total financial institutions increased from 4.3 percent in 1981 to 4.9 percent in 1990, as shown in table 4-1. Their head offices are

located in the centre of ten different provinces, and total domestic branches of LBs were 638 at the end of 1990 as shown in table 4-4.

4.3.3. BRANCHES OF FOREIGN BANKS IN KOREA

Since the establishment of the branch of Chase-Manhattan Bank in 1967, the number of branches (or representative offices) of foreign banks in Korea reached 69 - with 57 in Seoul and 12 in Pusan - at the end of 1990. The objectives of inducing foreign banks to enter Korea have been to promote relationships with international financial markets, and to motivate domestic banks in their managerial skills and banking practices. They are subject to the GBA, as well as the Foreign Exchange Control Law. They have been allowed to issue CDs, to engage in trust business, to take deposits⁵, and to use rediscount facilities of the BOK since 1985 (BOK 1986). Their portions of total assets in total financial institutions declined from 5.1 percent in 1981 to 2.2 percent in 1990, mainly due to the expansion of domestic banks comparatively, as shown in table 4-1.

4.4. *SPECIALIZED BANKS (SPBs)*

The establishments of the seven SPBs - six SPBs since February 1990 due to the privatisation of Korea Exchange Bank - were originally intended to provide funds for key industries or other strategic sectors which commercial banks could not adequately cover because of the lack of funds and experts (BOK 1986). The sources

⁵ : However, it amounted only about 0.1 % of total deposits taken by DMBs at the end of 1989.

of their funds have come from the government as a part of their financial sources, as well as their own funds raised through taking deposits from the public and debentures issued by them.

However, their characteristics, as SPBs, have dramatically been obscured mainly by the expansion of their activities into the activities of commercial banks, and by the encroachment of commercial banks into the unique activities of SPBs, along with the government intentions of the management autonomy of DMBs and of the privatization of SPBs (Jung 1987, Kim 1990). On the first step of the privatization plans of SPBs, the government privatized the Korea Exchange Bank in January 1990. The total number of the domestic branches of six SPBs was 1,557 by the end of 1990.

4.4.1. THE SMALL AND MEDIUM INDUSTRY BANK

The Small and Medium Industry Bank was established by the Small and Medium Industry Bank Act in 1961 with its capital subscribed by the government and the National Federation of Small and Medium Industry Co-operatives. Originally, its establishment objective was to support the financing of the small or medium sized enterprises⁶ which were neglected by commercial banks because of the high financial risks and the lack of adequate collateral for loans to the small and medium enterprises. It exclusively handles the medium industry funds raised by the government, but it also takes deposits from the public, alongside almost all activities of commercial banks, through its 268 domestic branches.

⁶ : The provision 1 of the Small and Medium Industry Bank Act.

4.4.2. THE CITIZENS NATIONAL BANK

The Citizens National Bank was established by the Citizens National Bank Act in 1963, by consolidation of "Mujin"⁷ companies, to serve households and small-sized enterprises⁸ which require small loans but do not have enough collateral. It is the only one bank which exclusively serves households and small-sized enterprises so that its general loans are primarily for those who have instalment savings accounts and mutual instalment accounts - originally permitted to the Citizens National Bank exclusively, but all commercial banks have been given permission to deal with later on. It had 369 domestic branches at the end of 1990.

4.4.3. THE KOREA HOUSING BANK

The Korea Housing Bank was established by the Korea Housing Bank Act in 1969, taking over the housing fund which had previously been managed by the Korea Development Bank, to support funds for the construction or purchase of houses, grading of housing sites and housing material production⁹. Therefore, it has exclusively engaged in housing instalment deposit to house related loans (eg. purchase of house and site for house, and construction and betterment of house). However, it can also take deposits from the public, as well as carry out almost all activities of commercial banks, through its 252 domestic branches.

⁷ : They are traditional financial institutions which were used by the ordinary people in Korea.

⁸ : The provision 1 of the Citizens National Bank Act.

⁹ : Provision 1 of the Korea Housing Bank Act.

4.4.4. THE NATIONAL AGRICULTURAL CO-OPERATIVES FEDERATION

The NACF was established by the Agricultural Co-operative Act in 1961 to promote agricultural productivity, and to finance farming or other agricultural related projects through the activities of product, purchasing, selling, utilization, credit and other mutual-aid for the benefits of its members¹⁰. Of its activities, only credit activities carried by its credit department have been treated as banking activities¹¹. With a widespread branch network (ie. its 505 domestic branches at the end of 1990), it can take deposits from the public living in both urban and rural areas, as well as participate in almost all activities of commercial banks.

4.4.5. THE NATIONAL FEDERATION OF FISHERIES CO-OPERATIVES

The NFFC was founded by the Fisheries Co-operatives Act in 1962 to promote the productivity of marine industry, and to offer finance to fishermen and marine related projects through the activities of credit, guidance, purchasing, storage and selling, processing, inspection, and other mutual-aid for the benefits of its members¹². Of the activities, credit activities run by its credit department have been treated as banking activities. Through its 115 branches, it can take deposits from the public living in both urban and rural areas, as well as perform almost all

¹⁰ : Provision 1 of the Agricultural Co-operative Act.

¹¹ : However, the activities of its unit co-operatives (as independent bodies from the NACF) are not treated as banking activities, but treated as one of savings institutions because their financial activities are generally limited to their own members.

¹² : Provision 1 of the Fisheries Co-operatives Act.

activities of commercial banks.

4.4.6. THE NATIONAL LIVESTOCK CO-OPERATIVES FEDERATION

The NLCF was established by the Livestock Co-operatives Act in 1981 in order to promote the development of livestock industries¹³. Operations of its credit department are very similar to those of the NACF, but on a small scale. It can take deposits from the public living in both urban and rural areas, as well as perform almost all activities of commercial banks through its 48 branches.

4.5. *NON-BANKING FINANCIAL INSTITUTIONS (NBFIs)*

Development institutions, investment institutions, savings institutions, and insurance institutions are classified into NBFIs. Their operations are located in the outside of the controls of the BOK, the BOKA and the GBA generally, but are subject to the supervision of the MOF and each of their acts, respectively.

4.6. *DEVELOPMENT INSTITUTIONS*

Development institutions (set for the purposes of long-term development of the country) are comprised of the Korea Development Bank, the Export-Import Bank of Korea and the Korea Long-term Credit Bank. They can not take deposits from the public generally.

¹³ : Provision 1 of the Livestock Co-operative Act.

The Korea Development Bank was founded in 1954 to rehabilitate industrial facilities severely destroyed during the Korean War, and to support the development of the infrastructure, and industrial projects (eg. heavy and chemical industries, energy conservation) of the government. Its main financial resources are borrowing from the government, foreign sources and the National Investment Fund, as well as the issuance of the Industrial Finance Debentures. It had 39 domestic branches at the end of 1990.

The Export-Import Bank of Korea was established in July 1976 to provide medium and long term credit for promotion of the export-import trade, for overseas investment and major resource development projects abroad, and for foreigners who want the import of designated Korean capital goods and technical services. Its main financial resources are paid-in capital (paid by the government, the BOK and the Korea Exchange Bank), borrowing from the National Investment Fund, and domestic and foreign banks, as well as the issuance of the Export-Import Finance Debentures and promissory notes in international financial markets. It had 3 domestic branches at the end of 1990.

The Korea Long-term Credit Bank was founded in June 1980 to provide medium and long term credit for enterprises seeking the loans for equipment purchases and for long term working capital. In addition, it offers short term credit and underwrite corporate bonds and stock as well as technical and managerial consulting services. Its main financial resources are paid-in capital by domestic and foreign banks, insurance companies, securities companies, and enterprises, the issuance of the Long-term Credit Debentures, and borrowing from foreign sources. It had 19 domestic branches at the end of 1990.

4.7. INVESTMENT INSTITUTIONS

Investment institutions of Korea comprise 32 investment and finance companies, six merchant banking companies, the Korea Securities Finance Corporation, eight investment trust companies, and 25 securities companies.

4.7.1. INVESTMENT AND FINANCE COMPANIES

Investment and finance companies have been given licences since 1972 by the Short-term Financing Business Act to attract funds which had previously been flooded into the unofficial financial market, to develop a short-term money market, and to fulfil the short-term financial needs of enterprises. They issue their own

bills, accept and guarantee commercial bills issued by enterprises, discount commercial bills, and resell commercial bills to the public, as well as deal with the business of the cash management account (CMA) and invest on securities¹⁴. The detailed contents are prepared in appendix 4-2. Generally, they are just allowed to have their businesses in only one place, without having any branch. Of the total 32 companies, 16 companies in Seoul, 5 companies in Pusan, 3 companies in Daegu, and 8 companies scattered in 8 other cities respectively (BOK-2 1989). In the near future, they may have a chance to become either commercial banks or securities companies by the government's policy of conversion, mainly due to the doubtfulness of their existence by the fact that most of their activities are dealt by merchant banking companies.

4.7.2. MERCHANT BANKING COMPANIES

Since April 1976 six merchant banking companies have been founded as joint ventures between domestic enterprises (or financial institutions) and foreign investors under the Merchant Banking Company Law to meet the enterprises' demand of foreign capital and of medium- and long-term funds. Their main activities are a brokerage of foreign capital inducement by enterprises, an inducement of foreign capital on their own account to lend to enterprises, and an issuance of their own bills having more than two and half year term, along with most of the businesses of investment and finance companies (such as CMA, the business of commercial bills, and the investment on securities), written in the

¹⁴ : Provision 7 of the Short-term Financing Business Act.

provision 3 of the Merchant Banking Company Law.

4.7.3. THE KOREA SECURITIES FINANCE CORPORATION

The Korea Securities Finance Corporation was set up in 1955 by a joint investment of 28 securities companies to promote the issuance and circulation of securities. It deals with securities finance, for example, granting loans to the securities companies and securities investors. Its financial resources are mainly deposits from securities companies, borrowing from financial institutions, and the issuance of its bills.

4.7.4. INVESTMENT TRUST COMPANIES (ITCs)

Since 1974 the establishments of ITCs under the Securities Investment Trust Business Act have been to popularize the securities market to the public. ITCs have acted as the agencies of securities investment for those investors who have the lack of knowledge and experience in securities investment, and who want to invest a small amount of funds in securities indirectly. ITCs engage in beneficial certificates in bonds and debentures and in shares of enterprises, workman's property formation deposit, securities investment savings deposit, and other businesses related on the securities investment trust (BOK-2 1989). The detailed contents are prepared in appendix 4-3. At the end of 1989, all eight ITCs had a total of 136 branches - ranging from 25 branches (2 companies) to 4 branches (2 companies).

4.7.5. SECURITIES COMPANIES

At the end of 1989, twenty-five securities companies had a total of 619 branches, ranging from 4 to 62 branches. They deal with such securities business as buying and selling securities for their own accounts or on consignment, buying and selling securities as a broker, intermediary or agent, underwriting securities, and making arrangements for public offerings, along with securities related business such as security investment savings deposit and bond management fund (BMF)¹⁵.

4.8. SAVINGS INSTITUTIONS

The main activities of savings institutions are to take funds from the public in the forms of time and savings deposits, and to grant funds to the public (BOK 1986). Compared with DMBs, they operate on a small scale, and are preferentially treated in interest rates. Savings institutions are comprised of mutual savings and finance companies, credit co-operatives, postal savings provided by the post office, and trust accounts of DMBs (explained in the second part of appendix 4-1).

4.8.1. MUTUAL SAVINGS AND FINANCE COMPANIES (MSFCs)

MSFCs have been established since 1972 on the Mutual Savings and Finance Company Act to absorb unorganized private financial system into official financial

¹⁵ : Provision 2 of the Securities and Exchange Law.

system for managing and regulating the floating funds outside the regulated system properly, and to provide the specialized financial institutions for those who suffer from the lack of collateral and adequate credit. Their customers are generally limited to those who live in the areas of the companies' location. Their main activities are (a) a deposit-taking from the public through mutual instalments deposit, mutual time and savings deposit, mutual savings deposit, mutual time deposit, and borrowing from the public (treated similarly to time deposit of DMBs), and (b) a lending to the public and small-sized enterprises, in general, through loans on credit, loans on mutual instalment, loans on mutual time deposit, and discounts of bills¹⁶. The detailed contents are prepared in appendix 4-4.

At the end of 1990, the total number of MSFCs was 237 with 97 branches¹⁷ (MSFC 1991). Of the total MSFCs, 46 companies and 29 branches in Seoul, 75 companies and 20 branches in 5 big cities, and 116 companies and 48 branches scattered in other cities and areas.

4.8.2. CREDIT CO-OPERATIVES (CCs)

Credit cooperatives in Korea comprise credit unions, Semaui-kumko, and unit co-operatives of the NACF, the NFFC and the NLCF. They are operating for the common benefit of their members generally on a very small scale. Their general activities are deposit-taking and lending. The detailed contents are prepared in

¹⁶ : Provision 11 of the Mutual Savings and Finance Company Act.

¹⁷ : They are generally not allowed to have any branches. However, through the process of the rationalization of MSFCs in the early 1980s, the unsound MSFCs were absorbed into the other sound MSFCs, and were become their branches.

appendix 4-5.

Credit Unions existed since 1960 in churches or other private groups are subject to the MOF, as well as the Credit Co-operative Act. Total 1,315 credit unions were operated at the end of 1990. Semaul-kumko existed since 1964 are subject to the Minister of Home Affairs together with the MOF, as well as the Semaul-kumko Act. At the end of 1990, total number of Semaul-kumko was 3,245. Unit co-operatives are subject to the Agricultural Co-operative Act, the Fisheries Co-operatives Act, and the Livestock Co-operatives Act, respectively, along with the Credit Co-operative Act. Total number of unit co-operatives was 2,057 (1,433 in the NACF and 168 in the NFFC at the end of 1989, and 456 in the NFFC at the end of 1990). Over the activities of CCs, unit co-operatives deal with mutual instalments deposit.

4.8.3. POSTAL SAVINGS

Postal savings in the post offices, abolished in 1977, have resumed since July 1983 to inspire the savings intention of the public (BOK 1986). Postal savings are regulated by the Minister of Communication consulting with the MOF. Along with the deposit-taking business (eg. deposits of passbook, time, savings, instalments savings, household preferential instalments savings, and scholarship instalment savings), the post offices engage in other activities related to finance such as postal insurance, sale of treasury bills on the condition of repurchase, postal giro, and postal order. However, postal offices do not grant any kind of lending to the public. The total number of post offices was 2,552 at the end of 1989.

4.9. INSURANCE INSTITUTIONS

Insurance institutions fall into life insurance companies and non-life insurance companies. None of the insurance companies can engage in both life and non-life insurance business at the same time by the provision 10 of the Insurance Business Act. The activities of insurance companies are regulated by both the Korea Insurance Corporation and the MOF. At the end of 1989, life insurance companies comprised twelve life insurance companies, Daehan Educational Insurance Company, four foreign life insurance companies in Korea, the account of National Life Insurance, five Korean-foreign joint life insurance companies, and the Postal Life Insurance of the post offices¹⁸. They provide such insurance products as the educational insurance for children, the household welfare insurance, and the insurance for an old-age annuities (BOK-2 1989). They can grant households loans to the insurance contractor.

4.10. FINANCIAL REGULATIONS

Moran (1986) said a regulation is "an activity in which the discretion of individuals or institutions is restricted by the imposition of rules". Regulation can comprise all rules, either explicit or implicit, which significantly affect the way in which markets and firms operate, irrespective of who lays them down, so long as they have at least the implicit imprimatur of a government or international organization (Gowland 1990). The narrow meanings of a regulation refer to the

¹⁸ : There are 13 domestic non-life insurance companies in Korea in the end of April 1989.

government rules which influence the way in which market firms carry out their activities.

Regulation can affect and change the conditions in which the rival group of financial institutions compete, so that regulation can help, as well as hurt, some financial institutions. If one group faces greater regulatory constraints than other groups, it might be expected that the group would experience a decline in market share, due to relatively diminished ability to provide innovative financial services (Cooper and Fraser 1986).

The objectives of regulation on financial institutions should be (a) to achieve the objective of the government's financial policy (Gowland 1990) such as money supply, interest rates and inflation rate, (b) to ensure the soundness of financial institutions and system through encouraging the proper operation and competition (Henning et al. 1978), and (c) to protect customers (depositors and borrowers) of financial institutions (Gardener 1986). The purposes of the financial regulation in Korea are to protect the depositors, to maintain the monetary stability and to keep the financial system running efficiently and competitively in order to contribute to the development of national economy¹⁹.

Regulation can be conducted by the form of either direct regulation or indirect regulation (Gowland 1990). Direct regulation is a direct involvement of the government or quasi-government bodies (eg. the central bank) into the operations of financial institutions through the enactment and enforcement of laws and regulations, and moral suasion. Indirect regulation - called as self regulation or voluntary regulation - refers to the administration of regulation by the industry

¹⁹ : Provision 1 of the GBA.

concerned (eg. the federation of banks), irrespective of how/by whom it is promulgated. Indirect regulation may not have a legal power to enforce it.

Competition among financial institutions is affected by the government regulations for the structure of financial system (eg. entry or expansion) and for the conditions of competition on financial institutions (eg. pricing of deposits and activities) (Alhadeff 1968). Main regulations imposed on FIs-HSM of Korea can be mainly classified into the regulations over establishment and paid-in capital, ownership and management, activities, interest rates, and reserve requirements.

The characteristics of the regulation on financial institutions of Korea are, according to Kim (1989) and Jung (1990), an excessive stress on the wide ownership of commercial banks, an application of positive regulation (eg. financial institutions can only engage in activities stated on the law), a lack of the consistency of regulations, and heavy informal regulations over legal regulations. Kim (1989) further pointed out that regulations on the financial institutions of Korea have caused a lack of constitution in financial institutions, a lack of financial innovation, a lack of management experience, and inefficient distribution of funds.

4.10.1. REGULATION ON ESTABLISHMENT/PAID-IN CAPITAL

The regulation principle on the establishment of financial institutions in Korea has been to increase savings and financial services, to prevent excessive competition among financial institutions, and to co-ordinate a geographical spread of financial institutions (BOK 1986). Since 1971 the Branch Coordination Board of DMBs which was set up by Presidential Decree has issued guidelines for branch

administration in order to prevent severe competition amongst DMBs, and to coordinate the matters of establishments of DMBs efficiently (BOK 1986). Under the guideline, regulatory authorities (eg. the Monetary Board, the BOK, the MOF) can grant a licence to DMBs in the matters of establishments.

Commercial banks should have a permission from the BOK in the matters of new establishment and movement of head office, branches and representative offices, merger, dissolution and change of the statute and of paid-in capital²⁰. According to the provision 16 of the GBA, initial paid-in capital of commercial banks should be more than 25 bn Won in the case of NCBs, and more than 3 bn Won in the cases of both LBs and the branches of foreign banks in Korea.

The matters of establishments of SPBs are subject to each of specialized bank acts, respectively. The paid-in capitals of the Citizens National Bank, the Small and Medium Industry Bank and the Korea Housing Bank are generally paid by the government. The paid-in capitals of the NACF, as well as the NFFC and the NLCF, are represented by the subscribed capital of their members.

The MOF has generally controlled the establishments of NBFIs. All NBFIs but ITCs and securities companies are generally not allowed to have any branch. The initial paid-in capitals of investment and finance companies - as well as merchant banking companies and ITCs - should be more than 0.5 bn Won²¹. The Initial paid-in capital of securities companies should be (a) more than 0.5 bn Won in those companies engaging in one of the three activities (ie. securities trading for commission, securities trading for their companies, securities related on business),

²⁰ : Provision 9 of the GBA.

²¹ : Provision 4 of the Short-term Finance Business Act.

(b) more than 2 bn Won in those companies engaging in two of the three activities, and (c) more than 3 bn Won in those companies engaging in all three activities²². The initial paid-in capital of MSFCs should be (a) more than 50 mn Won in the areas of Seoul and Pusan, (b) more than 30 mn Won in both other cities and the areas specified by the MOF, and (c) more than 15 mn Won in the other areas²³. The paid-in capital of CCs is built by the total subscribed capital of their members, but no single member can subscribe more than 10 percent of the total amounts subscribed.

4.10.2. REGULATION ON OWNERSHIP AND MANAGEMENT

Since the early 1980s the government has surrendered the direct control of management matters of commercial banks along with the privatisation of NCBs, but the government has still influenced (or vetoed) on the appointment of senior managements of commercial banks (Choo 1989). Therefore, it can be said that DMBs of Korea have de jure managerial autonomy, not de facto at present. By spreading an ownership of commercial banks widely to prevent the concentration of the ownership and to insure sound operations, the possession of commercial bank's shares (except for those banks set up a joint venture and LBs) by the same person is generally restricted to no more than eight percent of the issued shares having voting rights in the general meeting²⁴. The presidents of SPBs - except the

²² : Provision 28 of the Securities and Exchange Law.

²³ : Provision 5 of the Mutual Savings and Finance Company Act.

²⁴ : Provision 17-3 of the GBA.

NACF, the NFFC and the NLCF²⁵ - have been nominated by the President of Korea through the recommendation of the MOF²⁶.

Compared with DMBs, NBFIs have enjoyed management autonomy from the government. Such NBFIs as investment and finance companies, merchant banking companies, ITCs and securities companies can be constructed as a form of a joint-stock, and their presidents (or chief executives) are elected in their general meeting, respectively. MSFCs can be taken as a form of either a joint-stock, an unlimited partnership or a limited partnership²⁷. The chairmen of CCs are elected in their general meeting by the members having only one voting right, regardless of the amount subscribed, and CCs (ie. credit unions, Semaui-kumkos and unit co-operatives) are subject to the control of the chairman of their federation, as well as the MOF.

Regulatory authorities can exercise disciplinary actions such as imprisonment, financial penalty, or dismissal over the managements of those financial institutions which are located inside their control.

4.10.3. REGULATION ON ACTIVITIES

The regulation over financial institutions' activities can take either a negative form which permits the engagement in any activities other than those prohibited

²⁵ : Their chairmen are elected in the general meeting, and every member has only one voting right in the general meeting, regardless of the amount subscribed.

²⁶ : Provision 10 of the Citizens National Bank Act, provision of 26 of the Small and Medium Industry Bank, and provision 17 of the Korea Housing Bank Act.

²⁷ : Provision 3 of the Mutual Savings and Finance Company Act.

by a regulation, or a positive form which prohibits the engagement in any activities other than those permitted by a regulation (Gowland 1990). Financial institutions operating under a negative form of a regulation can easily overcome the regulation imposed by help of new technology, so long as the innovated products and delivery methods are not written in the laws. Therefore, it can be said that financial institutions operating under a negative form of regulation have more flexibility in operations than those operating under a positive form of regulation. However, financial institutions of Korea operate under a positive form²⁸ of a financial regulation so that, for example, if a commercial bank wants to engage in any other activities which are not mentioned in the GBA, it must get a permission from the Monetary Board.

Even if commercial banks and SPBs are controlled by each of the different regulations, they provide more or less the same financial services for HSM. Their activities in related to HSM are shown in appendix 4-1. Compared with the activities of DMBs, NBFIs have provide a limited and specialized financial services for households as shown in appendices from 4-1 to 4-5, and their activities are subject to the different regulations as well. Receiving funds from the public by both investment and finance companies and MSFCs²⁹ is generally limited to no more than 15 times of the owned-capital³⁰ (eg. the sum of paid-in capital, reserve funds,

²⁸ : The main reason of taking a positive financial regulation may be to demarcate the activities of different groups of financial institutions easily, to curb the severe competition in the certain activities, and then to encourage the specialization of financial institutions.

²⁹ : However, they can not take funds from the public as a form of borrowing from the public (treated as a similar to time deposit of DMBs), exceeding their owned-capital.

³⁰ : Provision 10 of the Short-term Finance Business Act, and provision 13 of the Mutual Savings and Finance Company Act.

and surplus) of companies. Taking funds from the public by merchant banking companies is generally limited to no more than 10 times the owned-capital of companies³¹.

4.10.4. REGULATION ON INTEREST RATES

Under the guideline of maximum interest rates of deposits and lending (except some of the liberalised rates on some loans) issued by the Monetary Board, the BOK has decided on the maximum interest rates by terms on deposits and lending of DMBs within the maximum guideline rates³². Thereafter, individual bank is allowed to decide its interest rates on deposits and lending within the rates decided by both the Monetary Board and the BOK. However, the maximum guideline rates have been applied to the interest rates of all of DMBs, because there is an excess chronic demand for funds (BOK 1986).

In line with the government policy intention about the liberalization of interest rates, however, the Monetary Board has liberalized the interest rates of some deposits (eg. time deposits of DMBs and NBFIs, money in trust of DMBs) with a term of two year or more since the 5th of December 1988. Taking into account the disadvantage of LBs such as the limitation on their geographical coverage (eg. small number of branches in restricted areas), the BOK has allowed LBs the preferential high rates ceiling (up to 0.5 % per annum) on time deposits with more

³¹ : Provision 4 of the Merchant Banking Act.

³² : In addition to restriction on interest rates of deposits, such collateral conditions of individual deposits as the condition of applicant and the limitation of deposit amount are regulated by both the Monetary Board and the Governor of the BOK.

than 1 year term and on instalment savings deposit, on the ground that LBs are required to have a higher rate than NCBs in order to attract money into their banks.

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 [Table 4-5] Interest Rates on Deposits at The 2nd of July 1990

	DMBs	NBFIs
	-----	-----
Passbook deposit	1.0 (% annum)	2.0 (% annum)
Household checking deposit	4.0	-
Time deposits		
less than 1 year term	4.0 to 6.0	7.0 to 11.0
less than 2 years term	10.0 (10.5)	11.0
2 year or more	Freed (f)	Freed (f)
Savings deposit	5.0	6.0
Preferential savings deposit		
less than 3 months term	5.0	5.0
3 - less than 6 months term	8.0	8.0
more than 6 months	11.0	11.0
Instalment savings deposit		
1 - 3 years terms	10.0 (10.5)	10.5 to 13.0
Mutual instalments deposit		
1 - 5 years terms	10.0 to 11.0	11.3 to 15.0
Workman's property format. dep.		
1 year term	14.0 (p)	10.2 (g)
2 year term	14.6 (p)	10.7 (g)
3 year term	15.5 (p)	11.5 (g)
5 year term	16.5 (p)	12.5 (g)
Money in trust		
1 year term	10.0	-
2 - 3 years terms	Freed (f)	-
Beneficial certificates	-	7.0 to 9.0 (g)
Cash management account	-	10.7 to 13.8 (f)

- *. 1. Figures in parentheses are preferential rates applied to LBs.
 2. Interest rates of NBFIs are the synthesized rates of NBFIs.
 3. (f) represents interest rates/profitability decided by FIs-HSM freely.
 4. (g) indicates the guaranteed rates. Additional rates are added over the guaranteed rates, based on profitability of FIs-HSM.
 5. (p) indicates that premiums are added to the basic rates.
 6. Preferential interest rates (13.0 % per annum instead of 10 %) are applied to DMBs' household preferential instalments savings deposit - treated more or less the same as instalments savings deposits - with 3 year term.

Source : Economic Statistics Yearbook 1991 by the BOK, and "Profitability of Savings" - Operational Data 89-7, The Savings Department of the BOK, July 1989.

Although NBFIs have been generally allowed to decide interest rates themselves in the market, the MOF consulting with the Monetary Board has issued the guideline. However, the MOF has allowed NBFIs higher maximum interest rates than DMBs on the presumption that (without the rate difference) they would be unable to compete with DMBs because of NBFIs' inferior standing (eg. number of branches and scale).

The interest rates (or profitabilities³³) of the main deposits of both DMBs and NBFIs are shown in table 4-5. Over the basic interest paid on workman's property formation deposit, the additional interest are added as a premium/bounty from the government and the employer of depositors.

As well as the different interest rates, the different tax rates are applied to the different deposit accounts. Since the 1st of July 1983, generally 16.75 percent of tax rates³⁴ have been levied on the interest paid to those depositors who use their real names and show a certificate of residence (BOK-2 1989). Interest paid to those depositors who use anonym has been heavily levied up to 52 percent of interest paid³⁵. However, some deposit accounts³⁶ are not allowed to open by using anonym. Some deposit accounts are exempted from some of the four kinds of taxes (See appendix 4-1).

³³ : ITCs provide their customers a profitability which changes from time to time based on their investment of the customers' funds, instead of the fixed interest paid.

³⁴ : These are the sum of 10 % of interest income tax, 1 % of defence tax, 5 % of educational tax and 0.75 % of inhabitant's tax.

³⁵ : These are the sum of 40 % of interest income tax, 4 % of defence tax, 5 % of educational tax and 3 % of inhabitant's tax.

³⁶ : These are savings (preferential) deposit, household preferential instalment savings deposit, scholarship instalment savings deposit, mutual instalment deposit, workman's property formation deposit, money in trust for household and others.

4.10.5. REGULATION ON RESERVE REQUIREMENTS

Reserve requirements imposed on financial institutions are intended to keep liquid assets of financial institutions against their deposit liabilities, to curb the usages of funds collected from the public, and to control the currency circulation of the country (BOK 1986). Under the guideline of the Monetary Board, the BOK has issued the minimum legal reserve requirement ratios - within a maximum of 50 percent - to DMBs. At present, ten percent of the reserve requirements has been applied to the deposits of DMBs³⁷ since the 8th of May 1989. Over reserve requirement rates, the Monetary Stabilization Account³⁸ has been imposed to DMBs. The interesting thing is that the amounts imposed by the account overwhelmed the amounts of reserve requirements between 1984 and 1987³⁹.

In general, the legal reserve requirements (or redemption preparations) funds of NBFIs are decided by the MOF. NBFIs have to reserve more than 10 percent of the funds received from the public as the form of the legal reserve requirements (or redemption preparations) funds⁴⁰. Securities companies have to deposit the business guarantee fund to financial institutions allocated by the MOF before

³⁷ : Economic statistics yearbook 1990 by the BOK.

³⁸ : The account (established in the BOK since the 3rd of March 1967) is similar to the reserve requirements in a sense that DMBs must deposit a certain amount required compulsorily, but more similar to the open market operations in a sense that it can control the liquidity position of DMBs through the use of it promptly and frequently. The funds compulsorily deposited in the account are not regarded as a portion of the legal reserve requirements, but are interest bearing. However, NBFIs are exempted from the imposition of the monetary stabilization account.

³⁹ : Economic statistics yearbook 1990 by the BOK.

⁴⁰ : Provision 15 of the Mutual Savings and Finance Company Act, provision 39 of the Credit Cooperatives Act, and provision 26 of the Semaual-kumko Act.

starting their operations. Postal savings of the post offices are exempted from legal reserve requirements because the government has the full responsibility for the redemption of deposits (BOK 1986).

The important thing is that the legally reserved funds of DMBs can not get interest earnings. However, the legally reserved funds of NBFIs can get interest earnings, mainly because NBFIs are allowed to keep their legal reserve funds in other financial institutions as the form of deposits.

4.11. SUMMARY

Generally speaking, FIs-HSM of Korea are mainly including NCBs, LBs, SPBs, investment institutions, and savings institutions. NCBs and LBs are generally subject to the GBA, as well as the BOKA and the control of the BOK. Six SPBs are generally subject to each of the specialised bank acts, respectively, as well as the control of the MOF. NBFIs are subject to each of their acts and the MOF, but they are exempted from the control of the BOK.

With respect to the operations of HSM, commercial banks and SPBs are almost equally treated by their direct regulatory authorities, because the MOF has controlled the BOK through its chairmanship of the Monetary Board which is a supreme policy-organ of the BOK. Compared with DMBs, however, NBFIs are preferentially treated by the MOF. These are the preferential treatment on interest rates of deposits (as shown in table 4-5) and lending, interest earnings from their reserve requirement funds, and the enlarged management autonomy.

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 [table 4-6] Comparison of The Amounts of Deposits (10 bn Won)

	End of 1983	1986	1989
Total Deposits	2710 (100.0 %)	4988	11722 (100.0 %)
<u>DMBs</u>	567 (57.8)	2459	4378 (37.3)
Commercial Banks	877 (32.4)	1307	2334 (19.9)
Nationwide commercial Bank	697 (25.7)	1006	1799 (15.4)
Local Banks	159 (5.9)	282	521 (4.4)
Foreign Banks	21 (0.8)	19	14 (0.1)
Specialized Banks	690 (25.4)	1152	2044 (17.4)
Trust in Banks	172 (6.4)	510	2212 (18.9)
<u>NBFIs</u>	971 (35.8)	2019	5132 (43.8)
Savings Institutions	356 (13.1)	719	2223 (19.0)
MSFCs	71 (2.6)	118	620 (5.3)
Credit Cooperatives	252 (9.3)	577	1492 (12.7)
Postal Savings	33 (1.2)	24	111 (1.0)
Other Institutions	618 (22.7)	1300	2909 (24.8)
Investment and Finance Cos	184 (6.8)	377	742 (6.3)
Merchant Bank Cos.	67 (2.4)	102	117 (1.0)
Investment Trust Cos.	355 (13.1)	775	1993 (17.0)
Others	12 (0.4)	46	57 (0.5)

- * 1. Demand deposits are not included in DMBs.
 2. Deposits of investment and finance companies include the amounts of bills issued and CMA, and deposits of ITCs include beneficial certificates and security investment savings.

Source : (1) Economic Statistic Yearbook 1990 of the BOK, (2) Mutual Savings and Finance Company of the Federation of the MSFC, No. 82, Jan. 1991, (3) The Statistics of Credit Union of the Federation of the CUs, No. 109, Nov. 1990.

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 [Table 4-7] Comparison of The Return on Assets of Financial Institutions of Korea (in percentage)

	1982	1984	1986	1988	1989
Nation-wide Commercial Banks	0.25	0.23	0.11	0.36	0.68
Local Banks	0.34	0.56	0.35	0.61	1.03
Foreign Bank Branches	1.38	1.43	1.19	1.18	2.13
Short-term Finance Cos.*	0.94	1.56	0.38	0.56	0.90
Investment Trust Cos.	4.71	8.13	20.52	13.01	0.65
Mutual Saving and Finance Cos.	0.55	1.27	1.00	3.14	3.26
Average of Manufact. Industry	1.0	3.3	4.5	4.9	2.7

Source : Adopted from Kim (1990), p. 27 and The Economic Statistics Yearbook of 1991

Mainly by help of the preferential treatment of their operations, and of providing the diversified and specialized savings products, NBFIs increased their proportions in the deposit-received from 35.8 percent in 1983 to 43.8 percent in 1989, as shown in table 4-6. The shares of DMBs' deposits declined from 57.8 percent in 1983 to 37.3 percent in 1989 substantially, along with the declining of the shares of commercial banks from 32.4 percent to 19.9 percent. Total amounts of deposits taken by financial institutions expanded 4.3 times from 27,100 bn Won in 1983 to 117,220 bn Won in 1989. As shown in table 4-7, the returns on assets of NBFIs were generally higher than those of NCBs and LBs. The returns on assets of NCBs and LBs have also become much lower than those of the average of manufacturing industry.

***** CHAPTER FIVE *****

WHO ARE CUSTOMERS ?

This chapter will provide clear pictures of who customers are, why customers save, how customers save, and which factors influence customers' savings behaviours. Customers' ability to save and their willingness to save will be also studied. Knowing who customers are will provide a firm to formulate appropriate combination and exercise of the 7Ps used to differentiate the firm from others effectively. However, customers of FIs-HSM, both DMBs and NBFIs, are all Korean households, even though some FIs-HSM (eg. LBs, MSFCs and CCs) are restricted to operate in certain areas. Therefore, it is very difficult to fulfil all needs of all customers, even though DMBs try to meet the maximum requests of the customers. Different customers have different needs and motives to save¹ at different times, and their needs and motives to save may change as time passes or as their situation changes (eg, purchasing a house, increasing in disposable income). Accordingly, they may choose and change FIs-HSM to save.

As customers act, their behaviour may be motivated and be influenced by a

¹ : The level of saving actually achieved by anyone represents the outcome of the conflict between his desire to improve his current standard of living and his desire to obtain future welfare by saving (Duesenberry 1967). Saving means refraining from consumption during one period in favour of later possibilities for consumption (Warneryd 1989). Lea et al. (1987) widely presented saving : (a) putting money in teapots, old socks, the pockets of spare jackets, under mattresses, (b) placing money in bank accounts, (c) purchasing securities, (d) using money to buy goods or services required for a business, (e) lending money to other individuals, (f) contributing to pension schemes, (g) purchasing durable goods that will last longer than the current accounting period, and (h) repaying loans.

complex and multidimensional process (Hawkins et al. 1989) which includes environmental factors (eg. culture and general society, nation's economic condition and government policy, reference groups, and marketing strategy of FIs-HSM), personal factors (eg. family size, life-cycle and life-style of family, educational level, income, occupation, and personality), and psychological factors (eg. belief, attitude, learning, motivation, and perception). Even if the same environmental factors (eg. changing interest rates paid for savings) have an impact on all customers, different customers may react differently on the same impact because they have different personal factors and psychological factors.

5.1. CULTURE² AND GENERAL SOCIETY

It is important to understand a cultural aspect, because each culture tends to have its own criteria for the acceptance and/or rejection of a certain product based on its cultural background. People's behaviour and attitudes are influenced by other people and by cultural and social groups in which they are living. In line with this, Kotler (1988) said culture is the most fundamental determinant of people's wants and behaviour. Culture is a symbol which has emotional meanings. It has pervasive values and norms which influence almost every aspect of members of a certain society so that the insiders are seldom aware of it.

Culture is transmitted from generation to generation. It can also be acquired by rapid technological advances, conflicts between existing values, exposure to

² : Culture is a "complex whole which includes knowledge, beliefs, morals, custom, and any other capabilities and habits acquired by man as a member of society" (Hawkins et al. 1989, p. 25).

another culture's values, and/or a dramatic event such as a war (Howard 1989). Bareham (1989, p. 18) pointed out that "the influence of the culture in which we live is not static but adaptive, changing and reflective of new values which society comes to recognise".

The culture and society of Korea can be characterized as having prevailing Confucian values and attitudes³ in a society, diversified religions⁴, widespread collective attitudes in decision making by emphasizing a group⁵ more than individuals, ethnic homogeneity, and tough and strong-willed nationality through enduring numerous invasions over the centuries from China and Japan. With the opening-up of the peninsular to Western nations since 1882 and after the Korean War (1950-53), Western ideas with the rapid spread of Christianity have challenged a traditional strong Confucianism background since 1392 when the Yi dynasty adopted Confucianism as a governing idea of the Korean peninsula. They have mixed together, but the traditional thought still plays an important role under the surface.

At present in Korean society, astrological beliefs are still widespread in ordinary life, especially in rural areas. The new year day is celebrated twice a year according to lunar calendar and Western calendar. Christmas and Buddha's

³ : The principles of Confucianism are the virtues of work, thrift, and education, filial piety, ancestor worship, and kinship affiliation, the respect for personal success, the dominance of elderly males, the order and hierarchy among people, and harmony.

⁴ : In 1991, 51.2 percent of population are categorized as buddhist, 45.0 percent are christian, 3.8 percent are others (National Statistical Office 1991, p. 300). Even though Koreans believe different religions, they have an united patriotism and a similar way of thinking so that it is difficult to find conflict and confrontation among people because of religious matters.

⁵ : The social relationships in Korea are heavily dependent on family/kinship, alumni, and regional relationship.

birthday are celebrated as national holidays. Filial piety and children's education are emphasized widely in society. The society is extremely sensitive to titles and status so that those who wish to deal with customers in a senior position in anywhere should have a senior rank in a firm. They prefer to develop personal relationships with strangers before they conclude a deal with them. The paramount importance of personal ties means that business relations should be between friends or on a personal footing.

Generally, Koreans do not like to bear bad news in the morning. Therefore, bad news will not be delivered until the late afternoon, so the recipient will not have his whole day disrupted (Alston 1989). For example, if someone wants to borrow either money or goods, or to buy goods in shop by beating a bargain, they are recommended to try in the afternoon instead of morning.

Korea's political and social situation - characterized by two political upheaval in 1980 and 1986, the problems (eg. defence, political) caused by the division of Korean peninsula, and the continuous student demonstration - are not perfectly stabilized yet. The growing wealth of the nation has increased the inequality of wealth distribution.

5.2. *ECONOMIC SITUATION AND GOVERNMENT POLICY*

People's forecast of economic optimism-pessimism influences their spending and savings patterns (Mowen 1987). An illustration of this is as people are generally pessimistic about the economic situation of the nation, they may curtail or postpone discretionary spending first, rebuild financial reserves, and take on less

debt. On the other hand, as optimism spreads, they may begin to spend, borrow money, and deplete their savings accounts. However, according to Mowen (1987), if their savings are high, and their job are secure, the economic pessimism will be felt by people to a minimum degree. Whereas, if people are worried about their own future, they will spend cautiously and save more.

It is said that higher interest rates cause people to take on less debt and to begin to save more, resulting in lower consumption. However, the influences of interest rates described by Ligeti (1989, pp. 57-58) are as follows. First, small savings are not very much affected by slight changes of interest rates, but they do react to considerable changes. Second, savings for specific purposes are insensitive to interest rate changes. In many cases the chief incentive is the preferential credit to the various forms of savings. Third, large savings are affected significantly by interest rate changes. Fourth, savers who are well informed on financial matters take into account, in their decisions, the changes of interest rates.

Generally speaking, excepting the negative economic situation in 1980 caused mainly by the political upheaval in that year, the economic situation of Korea has continuously been stabilized and improved as shown in table 5-1. First, there is a high GNP growth (9.6 % annually from 1981 to 1990) rate, a stabilized interest rate, and a moderate inflation (4.7 % annually from 1982 to 1990) rate even though a upward trend has been shown since 1988. Second, there is a low level of unemployment (3.5 % annually from 1981 to 1990) rate, and the rate has declined further since 1988. Third, there has been an up-trend of personal savings since 1981, and the rate of personal savings showed 21.6 percent in 1989. Fourth, there has been a high increase in personal disposable income partly because of 1.8 times

increase in wages from 1985 to 1989⁶ due to the stronger wage bargaining power of workmen by the relaxation of government tight control on a trade union movement in step with the further democratization of the nation since 1986, and partly because of the trend of smaller families with a few children.

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 [Table 5-1] Main Economic Indicators of Korea (%, (i) = index)

Yr	GNP (%)	Interest Rate (%)	Inflat. Rate (%)	Unemploy. Rate (%)	Per.Capita PDI (i)	Personal Savings (%)
79	7.2	18.6	18.2	3.8	44.3	15.9
80	-3.7	19.5	28.7	5.2	52.2	10.2
81	5.9	16.2	21.6	4.5	63.7	10.5
82	7.2	8.0	7.1	4.4	71.7	12.1
83	12.6	8.0	3.4	4.1	82.2	13.5
84	9.3	10.0	2.3	3.8	91.7	15.0
85	7.0	10.0	2.5	4.0	100.0	14.6
86	12.9	10.0	2.8	3.8	115.3	19.0
87	13.0	10.0	3.0	3.1	133.4	21.5
88	12.4	10.0	7.1	2.5	156.4	23.1
89	6.8	10.0	5.7	2.6	172.7	21.6
90	9.0	10.0	8.6	2.4	203.6	-

- * 1. Interest rates of this table represent the interest rates of time deposits with 1 year term of NCBs at the end of year.
 2. Consumer price index of all cities is used for inflation rates.

Source: Several Economic Statistics Yearbook - The Bank of Korea.

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 [Table 5-2] Final Consumption Expenditure of Households (%)

	1983	1985	1987	1989
Food, Beverages, Tobacco	43.0 (88)	39.8 (100)	38.1 (118)	37.1 (151)
Clothing, Footwear	6.5 (103)	5.1 (100)	5.0 (122)	4.8 (151)
Rent, Water, Fuel, Power	10.8 (78)	11.2 (100)	10.7 (117)	9.9 (143)
Sub Total	60.3 (87)	56.2 (100)	53.8 (118)	51.8 (150)
Furniture, House Equipment	4.6 (72)	5.1 (100)	5.9 (141)	6.1 (192)
Medical, Health Expenses	5.5 (71)	6.3 (100)	6.8 (134)	7.2 (186)
Transport, Communication	9.6 (77)	10.2 (100)	10.5 (127)	10.4 (166)
Recreation, Education	10.1 (76)	10.9 (100)	11.5 (130)	11.7 (174)
Others	9.9 (71)	11.4 (100)	11.5 (126)	12.8 (184)
Total Consumption	100.0 (81)	100.0 (100)	100.0 (123)	100.0 (162)
Amounts (bn Won)	38,407	47,365	58,463	76,864

- * 1. The figures in parentheses are indexes representing 100.0 in 1985.

Source: Several Economic Statistics Yearbook - The Bank of Korea.

⁶ : Economic Statistics Yearbook 1990 by the BOK.

The index of personal disposable income increased from 100.0 in 1985 to 172.7 in 1989. However, the consumption expenditure of households (as shown in table 5-2) increased from 100 in 1985 to 162 in 1989. The increase in personal savings can be explained by these factors.

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 [Table 5-3] Financial Assets and Liabilities of Personal Sector of Korea at The End of Year (%)

Financial Assets	1987	1988	1989	1990
Currency, Demand deposits	4.5	4.5	3.8	3.6
Time, Savings deposits, Trust	46.2	45.0	41.7	45.1
Deposits in DMBs	(50.8)	(48.6)	(45.0)	(42.1)
Deposits in NBFIs	(39.6)	(41.5)	(42.9)	(44.5)
Money in Trust	(9.6)	(10.0)	(12.1)	(13.4)
Life insurance, Pension funds	16.4	16.9	16.9	17.8
Beneficiary certificate	8.0	9.5	10.3	9.8
Shares	9.2	8.7	13.7	11.3
Other Securities, Equities	7.9	8.1	7.4	7.2
Other financial assets	7.9	7.3	6.2	5.2
Total financial assets	100.0 %	100.0 %	100.0 %	100.0 %
(in bn Won)	99,234	118,911	157,149	194,289
Financial Liabilities				
Loans from DMBs	37.2	27.0	30.6	30.4
Loans from NBFIs	43.5	37.2	48.8	50.9
Trade credit	17.6	12.8	14.2	12.5
Other financial liabilities	1.8	23.1	6.4	6.2
Total financial liabilities	100.0 %	100.0 %	100.0 %	100.0 %
(in bn Won)	41,199	66,112	70,430	88,020

Source : Several Economic Statistics Yearbook - The Bank of Korea.
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Katona (1960) stressed that the higher the income, the greater the number of motives for savings. As personal disposable income increases, people save more than the level of increase in personal disposable income, and they spend less. As Korean households become rich, they spend much less on the necessities (eg. food, clothing, rent), and they spend more on other items (eg. household goods, medical and health care, education and cultural services, and recreation and entertainment) as shown in table 5-2. As they became richer, total financial assets of personal

sector increased 1.96 times over the 3 years from 1987 to 1990 as shown in table 5-3. However, in total financial assets of personal sector from 1987 to 1989, the portion of the deposits with DMBs reduced, but others (eg. deposits with NBFIs, shares) increased their shares. The portion of loans taken from DMBs by personal sector was also reduced.

Along with the economic situation of the nation (eg. GNP, inflation rate, unemployment rate, personal disposable income), government policies - interest rate policy, the granting bounty on a certain deposit, and exempting tax from interest-earned in order to stimulate household savings which are studied in the chapter 4 - affect directly the level of the household savings and consumption.

5.3. DEMOGRAPHICS⁷ OF KOREA

Changes in the demographic structure of a nation can, in some cases, provide adequate explanations of a changing savings ratio. They play an important role in the overall demand for various goods and services. For instance, the changing structure of national population can lead some industries to grow but others to disappear by demanding certain products. Therefore, DMBs should know the current and future trend of general demographics of the nation in order to meet/predict the existing and potential customers' demands.

The demographics of Korea are characterized as slow growth in population, ageing population, increasing those age groups (between 30 and 64) having a strong

⁷ : Demographics are used to describe a population in terms of its size (ie. number of population), structure (eg. age, income, education and occupation), and distribution (ie. the location of individuals in terms of geographic areas) (Hawkins et al. 1989).

earning power from 31.9 percent in 1980 to 39.6 percent in 1990, and declining the dependency ratios⁸ (See table 5-4). The changing demographic trends of Korea will provide business opportunities for FIs-HSM. For example, with smaller families which reduce the dependency ratio, disposable income of families will rise, and then households may search the savings and investment opportunities for their financial surplus. The total number of households in Korea increased from 6.7 mn in 1975 to 11.4 mn in 1990 due to the increase in population and the decrease in the number of persons in households, as shown in table 5-4.

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 [Table 5-4] Statistics of Population

1. Trend (and Estimated Future) of Population (mn at the mid-year)

Year	1988	1989	1990	1991	1992	1993	1994
No. Population	40.98	42.38	42.97	43.27	43.66	44.06	44.45
Growth rate (%)	0.97	0.97	0.93	0.92	0.91	0.90	0.90

2. Index of Population Composed

Yr.	Composition of Population by Age Group (%)						Dependency Ratio (%)	Ageing Index
	0-14	15-29	30-49	50-64	65 +	Total		
80	33.8	30.4	23.1	8.8	3.9	100.0	60.7	11.2
85	29.9	31.2	24.7	9.8	4.3	100.0	52.5	14.2
90	25.4	29.9	28.3	11.3	5.1	100.0	44.6	19.4

3. Number of Households and Average Members of Household

	1975	1980	1985	1990
No. of Households (mn households)	6.7	8.0	9.6	11.4
Average Members of Household (persons)	5.1	4.5	4.1	3.8
Housing Supply Rate (%)	74.4	71.2	69.8	72.1

Source : Social Indicators in Korea - National Statistical Office

⁸ : As a result of the successful birth control campaign launched by the population planning authorities, and as richer and better-educated women bear few children, the annual population growth rate of Korea gradually declined to 0.93 percent in 1990 from 2.9 percent in the 1960s, and 1.7 percent in the 1970s (Ra 1986).

These aspects have created the chronological house shortage even though the government has encouraged to build houses to fulfil the shortage⁹. However, it can be easily forecasted that the number of households will increase in the future because of the rising population of young adults, the baby boomers of the 1960s. The increase in number of households will make the shortage of housing worse. Therefore, one of the main savings goals of households may be for the purchase of a house or real estate.

As the trend shown in the rapid developing other countries, farmers and their children in Korea have been lured to the metropolitan area by higher paying jobs and better schools. As a result, the rural areas are characterized by the population of ageing and poorly-schooled, and a shortage of young males (Wickenden 1990). Through economic growth and urbanization, people employed in the primary industries (ie. agriculture) dramatically declined from 34.0 percent in 1980 to 18.1 percent in 1990 as shown in table 5-5, and this declining will continue.

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[Table 5-5] Composition of Employed Persons by Occupation (%)

	1980	1985	1990
Profession, Technic, Admin., Managerial Work.	5.3	7.3	8.7
Clerical or Related Workers	9.3	11.5	13.0
Sales Workers	14.5	15.5	14.5
Service Workers	7.9	10.8	11.1
Agricult, Forestry, Fisheries, Related Worker	34.0	24.6	18.1
Product, Transport, Equipment Operator/Laborer	29.0	30.3	34.6
Total	100.0	100.0	100.0

Source: Social Indicators in Korea 1991.
=====

⁹ : The middle and working classes complain about soaring land and rental costs, for example, the annual 27 percent increase in land prices in 1988 - the largest increase in a decade (Clifford 1989). In Korea, the real estate market serves as a popular method of the wealthy households' saving and investment (Yoo and Kwon 1987).

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 [Table 5-6] Wage/Salary Levels by Educational Attainment (index)

Yr.	Middle Sch. or Under	High Sch. graduate	Junior Col. graduate	College/Univ. or Over
1980	68.8	100.0	146.3	228.5
1985	74.7	100.0	129.8	226.5
1990	83.8	100.0	117.4	185.5

Source : Social Indicators in Korea 1991.
 =====

Even though education level and income are not perfectly related, they are strongly related (Runyon and Stewart 1987) as shown in table 5-6, and the degree of education has an important role in making a decision of occupation and social status, especially in Korea. For example, those who were employed with the degree of college or university earned about 1.86 times more than those who were employed with a high school degree in 1990 as shown in table 5-6. Therefore, depending on whether they can afford their children's educational costs or not, most Korean parents want to send their children to university to give them a better occupation and social status.

As customers live in different places, their demand on financial services may differ. For example, customers in rural areas may require a loan for agricultural improvement. Those people moving from place to place frequently for the purpose of business and study will require money transmission service so that their choice of FIs-HSM can be dependent on the geographic coverage of FIs-HSM.

5.4. GROUPS INFLUENCING CUSTOMER BEHAVIOUR

Attitudes of individuals are generally acquired by relating oneself to a variety

of groups with which a number of people share common goals and interests, and interact with each other, over some period of time (Mowen 1987). A group has influenced the attitudes of its members by providing information about Fis-HSM and products, by changing the way people react to information, by encouraging the needs of certain types of values and behaviour, and by demanding a certain role (Mowen 1987).

A group can be classified into a primary group (eg. family, friends, neighbours, co-workers), and a secondary group (eg. trade association, religious, professional). In the primary group, the aggregates of individuals are small and intimate enough for all members to communicate regularly with each other on a face-to-face basis, and personal relationships among members may be strong. In the secondary group, limited and formal inter-personal contact occurs among members (Hawkins et al. 1989). As group size increases, interpersonal contact and influence tend to decrease. Some people who do not belong to a certain group are attracted and inspired to imitate and to follow the attitudes and behaviour of members of the group. On the other hand, some are likely to be treated as a non-associated member of a certain group (Kotler 1988).

Information supplied by the groups - called as reference groups - to which individuals belong and/or with which they share common purpose and value (norms) always carries more weight in the customer's mind than information provided by FIs-HSM. The higher people's esteem in the group, the more potent it will be in influencing the members' product and brand choices (Kotler 1988). However, some groups have a greater effect on values and behaviour of customers than do others.

Meidan (1984, p. 25) summarized the role of reference group as :

When information supplied to the consumer agrees with the information he receives from his reference group, the attitude towards the product (in this case service) will be more favourable. Accordingly, where information presented to customers is contrary to information from the reference group, an unfavourable attitude is formed. Where there is uncertainty as to the reference group's requirements, and the information received is contrary, the uncertainty towards the product/service is increasing. The customer's cognition is increased when information received reinforces the information provided by his reference group.

Knowing the customer's reference groups in a target segment is very important in developing marketing strategy. In Korea, along with the meeting of friends, relatives and social association, the schooling and regional background have acted as one of the most important sources of reference groups.

5.5. FAMILY¹⁰

For most people the family is the most important primary group. Through family interactions, an individual develops lots of his or her values, attitudes and opinions. As a member of a family, an individual can conduct a role of stimulator, expert, influential, decision maker, buyer, consumer, or caretaker. Family members tend to specialize in product(s) in which they have particular interest or for which their roles call for expertise. Different families exhibit different role structures for handling decisions to buy certain products. A decision for a certain product can be made by centring on husband, wife, or jointly in members of family. However, a family is so close that members can play certain roles even though they are not

¹⁰ : The types of families are categorized by the nuclear family consisting of a husband, a wife, and their children, and the extended family including of the nuclear family plus additional relations such as grandparents, uncles, aunts, and cousins (Mowen 1987).

aware of the fact (Wilkie 1986). Changes of role in gender and of marital status can provide either new opportunities or threats for a certain industry.

All families have a life cycle which is based on age, marriage and the presence of children (Wilkie 1986). A family passes through an orderly progression of stages during its existence, each with its own features and unique needs (eg. financial situation, purchasing patterns) (Runyon and Stewart 1987). According to the different family life cycle (eg. age of householder, family size), a household's demand for financial product can be differently exhibited. To illustrate :

Young people may be interested in savings in order to get training for a job or profession, and after marriage they tend to save to establish a home (eg. household equipment, house). As children arrive, their purpose of savings may be changed according to the different goals and needs of savings (eg. bigger house, children's education). A young family may tend to live beyond its current income in the early years, partly because its income is relatively low, partly because it may invest in housing and other durable goods at an initially large cost, and partly because the size of the family and its expenses increase as children are born. Household debts may appear and increase, or parents of householder may provide financial assistance at this stage. As family income moves up relative to spending, family's debts may be reduced. As debts disappear, positive net savings may start to accumulate. New objectives of savings (eg. retirement, holiday trip) start to appear, when children are grown, complete their schooling, become financially independent, and move out on their own. Finally, after retirement the family's earned income usually drops precipitately and savings are drawn upon quite heavily to sustain the level of living the couple would like to maintain.

Ideally, savings would provide maximum utility if they fell to zero at the moment the last of the family unit died, leaving nothing for inheritance (Fusfeld 1972). For these reasons, the life-cycle analysis of savings deliberately omits the desire to leave an estate to heirs as a significant element in savings behaviour. Instead, it stresses such factors as age, family income, size of family, current

spending needs and the provision for old age.

5.6. PERSONALITY

Personality is defined as consistent responses to environmental stimuli (Kassarjian 1971), and it determines the basic or general patterns of behaviour of people. Therefore, it is viewed as the distinctive patterns of behaviour (including thoughts and emotions) that characterize each individual's adaptation to the situations of his or her life (Mowen 1987). Individuals will tend to purchase and use products which are most pleasing to them.

Some people are more likely to consume immediately and do not want to postpone the gratification of their desires. They will save relatively little. Others are more concerned about the future and are willing to postpone some consumption until later time. They will save more. According to Fisher (1930), the six personal characteristics which make personal differences are the concern for other people, the expectation of life, fashion, foresight, habit and self-control.

The six features of people which tend to lessen the impatience of spending and to encourage savings are as follows : (a) a high degree of foresight, which enables him/her to give to the future such attention as it deserves, (b) a high degree of self-control, which enables him/her to abstain from present real income in order to increase future real income, (c) the habit of thrift, (d) emphasis on the expectation of a long life, (e) the possession of a family and a high regard for their welfare after his/her death, and (f) the independence to maintain a proper balance between outgo and income. Like those lists promulgated by Fisher, Keynes (1936)

provided a comprehensive list of savings motives. He said the eight main factors of a subjective character - avarice, calculation, enterprise, foresight, improvement, independence, precaution, pride - are those traits common to people who refrain and control their spending. Additionally, Fisher (1930, p. 89) described the six features of people which make the impatience to spend greater as follows¹¹ :

- Short-sightedness
- A weak will (the lack of self-control)
- The habit of spending freely
- Emphasis upon the shortness and uncertainty of life
- Slavish following of the whims of fashion
- Selfishness or the absence of any desire to provide for survivors.

Fundamentally, the basic source of the drive toward high (or low) consumption can be found in the character of cultural and environmental backgrounds. Consumption habits can not be changed easily.

However, as the methods to reduce the impatience to spend and to encourage savings in some degree, Fisher (1930, p. 89) suggested the followings : (a) training that gives insight into the need for providing for the proverbial rainy day, (b) training in self-control, (c) building up habits of thriftiness, on the one hand avoiding avarice, on the other extravagances, (d) better hygienic habits and health care which lead to a longer and healthier life, (e) incentives for taking better care of children and future generations, and (f) modification of fashion in favour of less ostentatious and harmful expenditures for lavish living.

Among the six methods mentioned above, self-control can be considered to be the most important factor for inducing savings behaviour. The degree of self-control

¹¹ : As similar to these six features, Keynes (1936, p. 109) described the motive to consumption as short-sightedness, enjoyment, extravagance, generosity, miscalculation, and ostentation.

can be conceptualized as degree of time preference. People with low self-control are assumed to have a strong preference for the present life and spending. Keynes (1936) treated personality traits which promote savings as morally good, whereas those which encourage spending as morally bad.

5.7. LIFE-STYLE

Lifestyle means the patterns of people's living which are characterized as activities, attitudes, consumption and saving, expectations, interests and needs (Engel et al. 1986, Hawkins et al. 1989). As a motivator of people, life-style can be formed by the influence of external factors (eg. culture, reference groups, demographics, household life cycle), and the reflection of internal factors (eg. personality, emotions, past experience). It means almost every aspect of our daily lives such as where we live, what we do with our time, what we eat, how we talk, and so forth (Hawkins et al. 1989). Therefore, it ultimately influences many purchase decisions and uses activities (ie. how, what, when, where and with whom).

Drawing originally from the Maslow's hierarchy of needs, SRI International's Value and Lifestyles (VALS) program assigned individuals to the lifestyles of need-driven, outer-directed, inner directed, and integrated. These segments are determined by both the values and the lifestyles of individuals. Values within this system refer to a wide array of an individual's aspirations, beliefs, desires, hopes, prejudices and others (Wilkie 1986).

Individuals categorized in the need-driven lifestyles (ie. survivors and sustainers) make a decision of spending and/or savings driven by need rather than

preference and choice (Engel et al. 1986). They are struggling for survival, and they are concerned with security and safety (Hawkins et al. 1989). These individuals' values and lifestyles are very strongly affected by restrictions on money available to them. The immediate need of product(s) is an important factor to encourage their actions to buy and use products, so that FIs-HSM focusing on basic needs will be effective in this category.

Individuals categorized in the outer-directed lifestyles (ie. belongers, emulators and achievers) are outwardly directed in behaviour, and are concerned with the social implications and norms of behaviour (Wilkie 1986). Belongers prefer to fit and follow the members of the group to which they belong rather than to stand out of them. They have strong traditional and conservative values and behaviours. Emulators are ambitious or competitive. They are status-conscious, and ultimately strive to burst out the system and attain the lifestyle of achiever (Hawkins et al. 1989). Therefore, their lifestyles and values emulate their aspirational reference group (the achievers), however they often fail to imitate achievers because of the lack of background, resources and training. Achievers appear to be well satisfied with their place in society (eg. business, profession). They enjoy comfort, fame and success, good life and leadership. They prefer the products of luxury, new and improved products and top of the line, which can provide the evidence of success.

Individuals categorized in the inner-directed lifestyle (ie. I-Am-Me, experiential and societally conscious) are concerned more with their individual needs and self-expression than with values oriented to external (Engel et al. 1986). Those who are in I-Am-Me's lifestyle are more concerned with their inner identities

and external potentials, so that they often try new activities, take risks and act impulsively. They can be the fashion innovators, and set new trends. Those who are in the experiential lifestyle seek the participation in and experience of many aspects of life. Those who are societally conscious are likely to extend their values beyond themselves to various social concerns (eg. volunteer work, social responsibility). They are strongly conscious of society as a whole, and complain openly when they are dissatisfied with the society.

The values and lifestyles of individuals categorized in the integrated lifestyle combine the power of the outer-directed achiever with the sensitivity of the inner-directed socially conscious individual. They are concerned with both personal development and the world around them, and their buying patterns focus on high standards, quality, self-expression and the unique (Hawkins et al. 1989).

Individuals in different categories of lifestyle may show distinct product and brand preferences. Therefore, this can provide a natural basis for market segmentation. For example, the inner-oriented and out-oriented individuals are likely to be future-oriented and confident of their financial acumen, to the extent so that they are more likely to invest in insurance and higher risk involvements such as stocks and real estate. On the other hand, individuals in the need-driven category may be more inclined to immediate gratification. When they do save, they may be primarily interested in safety and security so that they are willing to use a no-risk savings account. Individuals in the need-driven category may use their credit cards to buy goods now and pay later, while individuals in other categories tend to use their credit cards because of convenience.

5.8. NEEDS AND MOTIVATION OF SAVINGS

In connection with their life-style, people have many needs, wants, and desires at any given time and situation. Maslow (1970) said that individuals generally try to satisfy the most pressing and important needs such as the physiological and safety first. After they succeed in satisfying an important needs reasonably well, it will cease to be a motivation for the time being, and they will try to satisfy the next-most-important needs. In their order of important in Maslow's hierarchy of needs, they are : physiological needs, safety needs, social needs, esteem needs, and self-actualization needs. Different people have different needs, and the needs will be constantly changing in response to the individual's condition, environment and experiences. A need becomes a motive when it is aroused to a sufficient level of intensity, and satisfying the need reduces the felt tension.

Motivation is defined as a driving force produced by a state of tension on the result of unfilled needs, wants, and desires within individuals that impels them to action (Schiffman and Kenek 1987). Individuals can be motivated as a result of combination of a particular individual's characteristics and the situation in which the individual is placed. Motivation can be either positive or negative in direction such as a driving force toward some objective or condition, and away from some objective or condition (Schiffman and Kenek 1987). With better education and more money in their pockets, today's sophisticated customers are rightfully insisting on getting the service they believe they pay for whether it is courteous treatment at the point of purchase, accurate billing statement, attentive treatment or some other service. Their expectations have become higher, and this will continue to grow

because they are getting smarter about the value of service, and they have little loyalty because of the many alternatives on offer.

Individuals may wish to save for a great variety of reasons and needs (eg. children's education, the purchase of a house, or future spending). Or they may feel insecure and wish to guard against a rainy day, and they may be lured by high interest rates offered by a bank. Or thrift may simply be a habit, almost a conditioned reflex, whose origin they do not know themselves. In connection with savings, Keynes (1936) insisted people want to hold money instead of spending it because of transactions motive, precautionary motive, and speculative motive¹².

A transactions motive occurs when people need money for the bridge of the interval between the receipt of income and its disbursement. The strength of this motive depends on the amount of income and the normal length of interval between its receipt and its disbursement. A precautionary motive for holding money arises to deal with unforeseen contingencies such as accidents, illness, unemployment, sudden expenditure, or unexpected bargains. This motive depends chiefly on incomes, and the well-planned and developed social security system of a nation can adversely reduce this motive. After people satisfy both transaction and precautionary motive for holding money, they may have a speculative motive to increase their wealth generally. Therefore, a speculative demand for money seems to be very sensitive to the rate of return (King 1987).

Based on reasons or motives for savings, people save either contractually or

¹² : In 1981, Lindqvist grouped saving motives or needs by the hierarchical order from the most frequent needs such as (a) cash management to (b) buffer for unforeseen emergencies, (c) financial means for attaining a desired goal, and (d) wealth management, as the least frequent needs. The motives form a pyramid with the most frequent need (cash management) at the bottom and the least frequent one (wealth management) at the top.

discretionarily (Katona 1975, Lea et al. 1987). Contractual savings involve a decision made perviously. Contractual savings comprise voluntary contractual savings such as instalment savings account and life insurance, and obligatory contractual savings such as social insurance and pension funds (Ligeti 1989). Because the payments for contractual savings are carried out in a routine life, the initial decision of contractual savings has to depend on the amount of savings that will be available. However, attitudes, motivations, expectation level and types of aspirations may partly determine the amount of contractual savings (Ferber and Francesco 1972). Besides, people save habitually. Habitual savings mean that households save regularly¹³ with or without a special purpose. Discretionary savings involve an active decision to save whenever people want to save for some reasons (eg. purchase of house, holiday trip). Therefore, discretionary savings (eg. ordinary savings account, investment in securities) do not have any obligation of savings, and are not governed by habit. People can choose between attractive alternatives since there is money left after their basic needs have been satisfied. Therefore, discretionary savings are likely to be much more volatile than contractual savings, and much more likely to be affected by shifts in the conditions of the nation's economy (Lea et al. 1987). In addition, Katona (1975) argued that increases in income will lead to increased discretionary savings. Finally, residual savings refer to money that has not yet been spent. They are saved by default rather than by planning, and may involve a need for transaction (Lindqvist 1981).

People can be induced to keep their savings in the form of financial assets if

¹³ : Therefore, they can be treated as contractual savings, but they do not have any obligation of savings so that they can be discontinued easily.

the yield on such assets is comparable with that on physical assets like real estate, gold and commodities after making allowance for risk premiums and transaction costs. However, the increase in the expected rate of return to physical capital (eg. real estate) can cause a shift in the household financial portfolio toward physical capital from financial savings (Ortmeyer 1985). Finally, some of the factors which play a major role in reducing savings will be : increase in health insurance, unemployment insurance and annuity insurance which reduce the need for precautionary savings, decline in altruistically motivated bequests to children, and welfare programs that reduce the risk of abject poverty.

5.9. CUSTOMER'S PERCEPTION

Based on perception and interpretation of information gathered, the motivated customer is ready to act. However, perception is not a straightforward process : selection and distortion of information invariably occur as customers perceive information. However, even though individuals are subject to the same stimuli under apparently the same conditions, how they recognize them, select them, organize them, and interpret them are a highly individual perceptual process - such as selective attention, selective distortion, and selective retention (Kotler 1988) - based on each customer's own needs, values, expectations and others.

Therefore, perception can be defined as the process by which an individual selects, organizes, and interprets stimuli and motives into a meaningful picture of the world (Schiffman and Kenuk 1987). Perception is influenced by the nature of the stimulus and motivation situations, and the individual's physiological and

psychological characteristics (Runyon and Stewart 1987). The perceived information leads - through the process of learning¹⁴ and memory - to problem recognition, search, and the evaluation of alternatives in a process which consists of familiar belief, attitude, intentions sequence and, ultimately, choice (Foxhall 1983).

Customers' perceptions of service quality are based on how well the content of the service and the manner of its delivery meet their expectations. Customers expectations in turn are dependent on five inter-related factors such as their needs, their previous experience with the service, the references of others, the firm's image, and the price of product. Schiffman and Kenek (1987) said the main sources affecting the formation of customer attitudes and perceptions are direct and past experience, personal influence such as family, close friends, and admired individuals, and mass media.

Belief and attitude are closely linked not only to each other but also to behaviour (Mowen 1987). Through perception and learning, customers acquire their belief and attitude toward financial services. A belief based on knowledge, opinion, and/or faith is a descriptive thought which customer holds about something. Attitude is a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a given object (eg. a product category, a brand, a service, an advertisement or a branch establishment) (Kotler 1988).

Comparing the product-attribute beliefs held by customers about competing

¹⁴ : Human behaviour is largely learned rather than governed by instinct. Learning occurs either intentionally or incidentally. The strength of learning is heavily influenced by the degree of importance, reinforcement, repetition, and imagery (Hawkins et al. 1989). Learning is the process by which individuals acquire the knowledge and experience they apply to future related behaviour, and it continually evolves and changes (Schiffman and Kenek 1987).

firms' products, a firm can rearrange, correct, and develop its marketing mix based on the 7Ps. Customer's intentions of purchasing products are viewed as resulting from the formation of beliefs and attitudes (Mowen 1987). However, the intention of buying or using financial products differs frequently from the customer's action affected by such factors as the physiological and psychological conditions of customers at the time of action.

5.10. SUMMARY

Generally speaking, people may dispose of their income in either ways such as spending or savings. Both spending and savings may be contractual or discretionary so that they are not subject to a genuine decision at the time of the transaction. The decision to save or to spend is influenced by the available financial resources (eg, disposable income), by the objectives of the family, by the attitudes of the family members, by the family composition, and by personal economic circumstances. Therefore, different people have different reasons to save. For example, some save for children's education, or for purchasing a house or household goods, but others save for accumulating wealth, or for a holiday trip.

Thereafter, the forms in which to save (either savings account or investment in securities), who will take the responsibility for savings, when it will be done, and where it will be done (either DMBs or NBFIs) will be considered as making a decision about savings. Customer's decisions about the aspects above will be influenced by environmental factors, personal factors, and psychological factors which surround the customer.

The level of households' savings can be considered as being determined by both ability and willingness to save, and their opportunity to save. The opportunity to save and to accumulate savings in the form of financial assets will be dependent on their access to formal financial institutions, and on the types of financial instruments that these institutions make available (Abbott 1985). The general level of household savings, and the opportunity for individual household to save will be increased or decreased by : the capabilities of financial institutions to attract and accept household savings through the proper combination of the 7Ps, the attractiveness and variety of financial products provided by financial institutions in order to attract, and the easy accessibility of financial institutions by households.

***** CHAPTER SIX *****

APPROACH TO SURVEY

As mentioned earlier in chapter one, this research broadly intends to clarify the nature of household savings and the current competitive position of DMBs, as the main FIs-HSM of Korea, and then to formulate the competitive strategies of FIs-HSM. In order to achieve the overall aims of this research, the researcher constructed two sets of questionnaires for investigating households and FIs-HSM. Therefore, this chapter is concerned with providing an overview of research methodology¹ adopted in the formulation of two sets of the questionnaires for surveying households and FIs-HSM, the practice of sampling and field work, and the statistical methods adopted for analyzing the data collected from the survey.

6.1. COMPOSITION OF QUESTIONNAIRES

Questionnaires are planned to collect information by using a concentrated form of documents containing a number of questions which respondents are asked to reply. However, a questionnaire is not just a list of questions or a form to be filled in. It is an essential scientific instrument to measure (Oppenheim 1982) so that it is used to collect particular data required to be analyzed. Therefore, it can

¹ : It was defined by Adams and Schvaneveldt (1985) as "the adoption of scientific procedures toward acquiring answers to a wide variety of research questions".

be said that research questions are constructed to review existing theory or factual knowledge in a particular field, to describe and resolve a current situation problem, and to construct something that is useful to predict through "a systematic way of asking questions, and a systematic method of enquiry" (Drew 1980). Basically, this survey adopts the closed-formatted type in the two sets of questionnaires with providing an option answer of "other" in some questions in order to give respondents some latitude over the ready-made frame which impose artificial restrictions².

Based on the grand hypothesis³ and the five sub-hypotheses of this research mentioned in chapter one, the two sets of questionnaires are constructed to investigate both the operating of DMBs as well as NBFIs in HSM and the attitudes and preferences of households as customers of DMBs in HSM.

6.1.1. THE QUESTIONNAIRE FOR HOUSEHOLDS

The questionnaire for household survey was constructed (a) to clarify the general propensities of household savings and the attributes influencing the choice of FIs-HSM, (b) to examine a correlated relationship between the demographic profiles of households and the general propensities and the attributes, and then (c)

² : Even if it can limit the respondents' choice within the frame provided, the main advantages of this close-formatted type questionnaire are to abbreviate response time, and to simplify the process of data analysis (Adams and Schvaneveldt 1985) in a large scale sample. On constructing the closed-formatted questionnaire, however, lots of care should be taken to ensure the clarity and simplicity of questions and option answers given, by avoiding ambiguous words and words which are subject to a wide variety of interpretation as much as possible.

³ : Any of DMBs can not achieve competitive positions effectively in HSM it serves by differentiating itself from its competitors, either other DMBs or NBFIs in HSM.

to provide a clear picture of the systematic understanding of savings behaviour of households which are used to develop competitive strategies by DMBs. As shown in appendix 6-1a, the questionnaire used for household survey encompasses thirty five questions, and these questions are classified into the following seven groups.

The first group of questions (Q4 and Q24) observes the purposes of household savings and the possible usage of an unforeseen windfall. The second group of questions (Q1, Q2, Q3, Q6 and Q21) asks households the general propensities of their savings. The third group of questions (Q5, Q22, Q23 and Q25) asks the preferences of FIs-HSM for savings and borrowing, and of savings account, and the opinion about loyalty in FIs-HSM. In the fourth group of questions (from Q7 to Q16, Q5-1, Q20 and Q26), the researcher asks households the attributes⁴ which affect them to choose FIs-HSM for savings and borrowing, and the reason for preferences of "Kye". The fifth group of questions (Q18 and Q19) asks the sources and usefulness of financial information on the choice of FIs-HSM. The sixth group of questions (Q17, Q27 and Q27-1) aims to know households' attitude about the instalments of CDs/ATMs of FIs-HSM, and the method of payment in shopping. Finally, the seventh group of questions (from Q28 to Q33) deals with the demographic profiles of those households who respond.

All questions but question 4 require only one answer. Questions between Q7 and Q15 contain statements, instead of questions, which represent particular attributes, and an one-to-five Likert scale technique is used for those statements.

⁴ : The attributes (or characteristics) were carefully constructed after a review of banking literature. The nine attributes are descriptive of attributes that customers are known to consider when making a choice decision of a financial institution (Anderson et al. 1976, Dupuy and Kehoe 1976, Linneman and Davis 1976, Reed 1976, Kinnaird et al. 1984).

The Likert scale technique is a type of scaling where respondents are presented with a series of statements, rather than questions, and asked to indicate their opinions, usually on a five point scale. Its main advantages are flexibility, economy and ease of composition (Alreck and Settle 1985). In these questions, respondents were asked to indicate their opinions about the nine attributes influencing the choice of a particular FIs-HSM over others in HSM by choosing a number between 1 and 5 given.

6.1.2. THE QUESTIONNAIRE FOR FIs-HSM

The questionnaires constructed for surveying FIs-HSM comprise the two sets of slightly modified questionnaires⁵ used for DMBs and non-banking financial institutions (NBFIs)⁶. The questionnaire for DMBs encompasses 24 questions, and the questionnaire for NBFIs includes 22 questions (See appendices 6-2a and 6-3a).

The questionnaires are categorized broadly into six groups. The first group of questions (from Q1 to Q14 of all FIs-HSM) asks FIs-HSM their general marketing strategies. The second group of questions (from Q15 to Q18 of DMBs and from Q15 to Q16 of NBFIs) asks FIs-HSM to evaluate their strengths and weaknesses in HSM. The third group of question (Q19 of DMBs and Q17 of NBFIs) asks FIs-HSM to express their main competitors in HSM. Question 20 of DMBs and question 18 of NBFIs, as the fourth group of question, evaluate knowledge of

⁵ : The reasons to make the two sets of questionnaires for FIs-HSM is that the activities of DMBs and NBFIs have some degree of variances each other.

⁶ : NBFIs include ITCs, MSFCs and CCs. However, ITCs are not allowed to deal with the business of household loans so that the total number of questions for ITCs is 21.

FIs-HSM about the main purpose of household savings. The fifth group of questions (from Q21 to Q23 of DMBs and from Q19 to Q21 of NBFIs) asks FIs-HSM to evaluate the attributes adopted by themselves to attract and sustain more households. The sixth group of question (Q24 of DMBs and Q22 of MSFCs and CCs) asks FIs-HSM what aspects of those households who want to have household loans are importantly considered as they grant household loans.

6.2. THE TRANSLATION OF QUESTIONNAIRES

The two set of questionnaires were originally designed in English (as a source language), translated into Korean (as a target language), and then translated into English again by a different person who studied English language, and who has a knowledge about management. The reason of adopting back-translation by the third person is that it can help to check whether a questionnaire in a source language is translated rigorously into a questionnaire in a target language or not (Howard and Sharp 1983, Osgood et al. 1975). After the back-translation process, the questionnaires (English versions and Korean version) were scrutinized and corrected to avoid some ambiguous words which can be differently interpreted by different respondents. Both English versions and Korean versions of the two sets of questionnaires are presented in appendices 6-1b, 6-2b and 6-3b.

Additionally, before starting field work in order to discover and correct any unforeseen difficulties with dialects, slang and double meanings, the questionnaire for household survey was pre-tested in 20 samples in the areas of Gwangju on the 26th of December 1990. The questionnaire for FIs-HSM designed for a mail survey

was pre-tested in 6 samples in the areas of Gwangju by visiting FIs-HSM (MSFCs and CCs) and then by discussing the contents with the respondents between the 27th and 29th of December 1990. The results from the pre-test suggested few changes in original questionnaires.

6.3. SAMPLING AND FIELD WORK

Alreck and Settle (1985) said a sampling design as " the specification of a the sample frame, sample size, and the system for selecting and contacting individual respondents from the population". A population is a total group of people (or elements) which meet certain criteria of interest to a researcher, and from whom the sample will be selected (Lin 1976). A sample can be said as "a small representation (a kind of miniature model) of the population from which it was selected" (Hoinville et al. 1987). However, because it includes merely a part of the whole population, the important thing to remember is that the sample selected by a researcher can never be an exact replica of that population. Nevertheless, the major reason for using a sample is economy (Alreck and Settle 1985) in terms of "time, money, and personnel".

6.3.1. SAMPLING/FIELD WORK OF HOUSEHOLDS SURVEY

Total population of household survey was all of 9.57 million Korean households as shown in table 6-1. The difficulty in covering the huge size of the

population spread forced to adopt a two-step cluster sampling method⁷ after allocating all of the planned 700 samples to distribute into the three areas based on the ratio of households distributed as shown in table 6-1. The main reason to adopt this cluster sampling method was to distribute a questionnaire evenly to the target population, to contact the population economically in the clustered samples, and to save time to conduct survey.

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 [Table 6-1] The Planned/Distributed Sample Sizes based on The Number of Households on The 1st of November 1985 by The 1985 Population and Housing Census Report

<u>Areas</u>	<u>No. Households</u>	<u>Planned units</u>	<u>Validated units</u>
Seoul	2.32 mn (24.2 %)	170 (24.3 %)	119 (28.4 %)
5 big cities	2.14 mn (22.4 %)	155 (22.1 %)	102 (24.3 %)
Other areas	5.11 mn (53.4 %)	375 (53.6 %)	198 (47.3 %)
-----	-----	-----	-----
Total	9.57 mn (100.0 %)	700 (100.0 %)	419 (100.0 %)

Undistributed number of questionnaire = 57 units
 Validated/planned samples = 59.86 percent

Source of household number : Economic Planning Board.
 =====

With consideration of the characteristic of geographic distance and spread of the area of 5 big cities and other areas, (a) the clusters of Gwangju and Daejeon for the group of 5 big cities, and (b) the clusters of Jeonnam and Gyeongbuk for the group of other areas were decided as the first-step clusters. The clusters of Seoul were decided in the second-step cluster. Second, the clustered areas in the first-step were again divided into six sub-clusters based on their geographic distance. From the six sub-clusters of each area, each of three sub-clusters were randomly

⁷ : This is a technique to save travel distance and money in the case that the population is spread widely. The main idea is that (a) the population is divided into a number of clusters, and some of the clusters are chosen, and (b) the sampling units in the clusters can represent whole sampling units. Within clusters chosen, sample units are randomly selected.

selected, respectively. Within the sub-divided clusters chosen, sample units were randomly selected. Therefore, the overall sampling technique adopted in this research is a random sampling over the cluster sampling.

After successfully conducting pre-test on the 26th of December 1990 in the areas of Gwangju, the field work by face-to-face method was carried by the researcher with two helpers⁸ between the 29th of December 1990 and the 12th of February 1991. Of total 700 planned samples, 419 usable responses were obtained as shown in table 6-1.

6.3.2. SAMPLING/FIELD WORK OF FIs-HSM SURVEY

FIs-HSM targeted to conduct survey were the six different groups of FIs-HSM. The overall method adopted to collect data from FIs-HSM was a mail survey. First, from all of the population of FIs-HSM, the targeted sample units were selected as shown in table 6-2. All of DMBs (NCBs, SPBs and local banks) and ITCs were chosen for surveying due to its small numbers. However, in the case of MSFCs and CCs, their planned sample units were allocated in the three areas with the approximately same ratios of the planned units of household survey as shown in table 6-1.

Second, after allocating the number of sample units of MSFCs and CCs into the three different areas, the targeted MSFCs and CCs were randomly selected by

⁸ : They were given the explanation of the main objectives of this study and the guidelines on conducting interview with the households. Thereafter, question-by-question discussion was conducted and trial interview was conducted in order to establish a high degree of consistency in the data collection process among interviewers.

referring to the address lists in telephone directories. Third, the questionnaire together with a covering letter⁹, and an envelop with a stamp and returning address was sent to the head of savings department of the targeted FIs-HSM between the 4th and the 7th of January 1991. The validated sample units comprise the questionnaire returned to the researcher by 12th of February 1991.

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 [Table 6-2] Population/Selected Sample/Validated Sample Units
 =====

Selected FIs-HSM	Population	Planned (P)	Validated (V)	(V/P)
NCBs & SPBs	17	17	12	70.6 %
LBs	10	10	8	80.0 %
ITCs	8	8	5	62.5 %
MSFCs	237	50	29	58.0 %
CCs	6617	95	42	44.2 %

=====

6.4. ANALYSIS METHODS USED FOR DATA COLLECTED

Statistical measures used for the analyses of the questionnaire for the household survey are frequency table, cross-tabulation analysis, analysis of variance (ANOVA) and correlation analysis. Basically, frequency tables are prepared to provide a complete picture of the distribution of data for the variable by indicating the number and/or percentage of respondents who indicated each variable, a total number of valid cases, and mean and standard deviation¹⁰ in some tables.

All questions of the household survey, except those questions required to

⁹ : Cohen and Manion (1989) said the purpose of the covering letter is to indicate the aim of the survey, to convey to the respondent its importance, to assure respondents of confidentiality, and to encourage respondents reply.

¹⁰ : It is used to determine how data are dispersed around the mean. A small (or large) standard deviation indicates that data are concentrated close to (or scattered widely from) the mean.

indicate a scale, are cross-tabulated by the demographic profiles of the respondents. Some questions are also cross-tabulated by other questions, if required. Cross-tabulation analysis¹¹ (or called contingency table analysis) indicates whether or not the distribution for one variable differs significantly for each value (or level) of the other variable(s). With cross-tabulation, a chi-square test is used to all questions which are cross-tabulated for assessing the significance of association between two variables. The chi-square¹² test indicates whether the observed cell frequencies are in agreement with the frequencies expected when the null hypothesis to be tested is true (Harris 1986). For instance, the null hypothesis is that the purposes of savings are equal for the three educational levels, and that differences observed in the data of household survey reflect only sampling variation. If the observed value of chi-square falls within the acceptance region in the level of probability¹³ decided, the null hypothesis is accepted and then concluded that the purposes of savings are the same for all three educational levels. If the null hypothesis is rejected, it is interpreted that the purposes of savings are different for the three educational levels.

¹¹ : "Plotting two categorical variables in the form of a matrix so that the values of one variable define the rows and the values of the other, the columns, with the cells containing the frequency of cases with a given value for each of the two items and from which a chi-square value can be computed to assess the statistical significance of the relationship" (Alreck and Settle 1985, p. 407).

¹² : The chi-square may show an invalid or inaccurate significance if any of the expected cell frequencies is fewer than five cases. Therefore, cases fewer than five in the smallest expected cell frequency are recorded and combined the variable(s) with other(s). A sample size should be large enough to guarantee the similarity between the theoretically correct distribution and research sampling distribution of chi-square. When the expected frequencies are too small, the value of chi-square will be overestimated, and will result in too many rejections of the null hypothesis (Levin 1987).

¹³ : Determined by "the probability that a sample would show such a relationship if it did not exist in the population as a whole" (Alreck and Settle 1985, p. 343). The 0.05 level of significance is widely accepted. This means that 95 percent of value of a sample statistic can be expected to lie with the range concerned and 5 percent of the value outside it.

ANOVA¹⁴ test is carried out those questions (or statements) required to indicate a scale in order to examine the significance of difference between means. The F-ratio is used to check the statistical significance and to verify the null hypothesis¹⁵ of ANOVA test. If the observed F-ratio is larger than the critical value associated with the probability decided, the null hypothesis is rejected and then concluded that there are treatment effects (Bohrnstedt and Knoke 1985). In other words, the larger the F-ratio, the more likely the differences in means between groups will be statistically significant.

The nine attributes influencing households' choice of FIs-HSM are correlated each other to evaluate the degree to which two variables¹⁶ move or vary together from one respondent (or case) to the next and the significance of the relationship. Correlation coefficients generated in correlation analysis show how far the two continuous and numeric variables move together. It ranges from zero, which means no relationship, to plus (or minus) one, which means a perfect and linear relationship. The plus (or minus) sign on the correlation coefficient indicates whether the relationship between the variables is direct (or inverse) moving in the same (or opposite) direction.

The statistical measure employed for the analysis of the questionnaire for FIs-HSM survey is a frequency table. For a better comparison reason among

¹⁴ : ANOVA technique is applied to determine the statistical significance of differences among mean values for different groups between independent (categorical) variable and dependent (continuous) variables derived from either an interval or a ratio scale, but not an ordinal scale (Alreck and Settle 1985).

¹⁵ : Null hypothesis is the mean value of each groups in demographic profile is the same as the mean value of whole demographic profile.

¹⁶ : Both variables must be continuous variables but do not need to be identified as dependent and independent.

different size of sample units, percentages along with the actual number of their respondents are used for all frequency tables. The valid total sample cases in each table are also prepared. The results of the statistical analyses which show statistically significance are presented in chapter seven.

***** CHAPTER SEVEN *****

RESEARCH FINDINGS FROM THE SURVEY

This chapter deals with the results drawn from the responses of households and FIs-HSM. Therefore, this chapter is broadly constructed into the two parts. The first part deals with the results drawn from the responses of households, and the second part deals with the results drawn from the responses of FIs-HSM.

PART ONE : RESEARCH FINDINGS FROM HOUSEHOLD CUSTOMER SURVEY

Based on the research hypotheses which are described in chapter one, respondents were questioned with 35 questions to indicate their opinions about household savings and their expectations about FIs-HSM. Their reactions are regarded as important to gauge their expectations. For the analysis of cross-relation among different demographic groups, all of respondents were asked to indicate their demographic profiles. The summarized demographic profiles of respondents are shown in table 7-1.

The average age of respondents is over 40 years old, and they are fairly well educated. In comparison with average monthly salary and wages of households of all cities¹ (0.81 mn Won in 1990), more than sixty percent of respondents of this

¹ : From Social indicators in Korea, p. 136.

survey are richer than average Korean households.

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 [Table 7-1] Demographic Profiles of Household Survey

DEMOGRAPHIC VARIABLES -----	VALIDATED SAMPLES -----	
Age levels		
Under 30	22	(5.3 %)
30 - 39	151	(36.7 %)
40 - 49	82	(19.9 %)
50 - 59	119	(28.9 %)
60 and over	38	(9.2 %)
	412	(100.0 %)
Resident places		
Seoul	119	(28.4 %)
5 big cities	102	(24.3 %)
Other areas	198	(47.3 %)
	419	(100.0 %)
Educational levels		
Under high school	76	(18.4 %)
High school	222	(53.9 %)
College or over	114	(27.7 %)
	412	(100.0 %)
Occupation of householder		
Self-employed	93	(24.3 %)
Daily worker	42	(11.0 %)
Salaried worker	144	(37.6 %)
Professional	76	(19.8 %)
Other	28	(7.3 %)
	383	(100.0 %)
Monthly household income		
Under 0.5 mn Won	32	(8.4 %)
0.5 - 1.0 mn Won	122	(32.1 %)
1.0 - 1.5 mn Won	72	(18.9 %)
1.5 - 2.0 mn Won	103	(27.1 %)
Over 2.0 mn Won	51	(13.4 %)
	380	(100.0 %)

=====

7.1. THE PURPOSE OF HOUSEHOLD SAVINGS

Korean households indicated to purchase a house or real estate and to educate children as the major reasons for and the primary purposes of household savings, as shown in table 7-2. When they were again asked to indicate the

secondary purpose of household savings after filling the primary purpose of savings, they mentioned future security, the education of children, the security of elderly life, and others, in important sequence. Interestingly, whatever they indicated for the primary purpose of household savings, savings for children's education were generally a major secondary purpose of household savings (See appendix 7-1). Therefore, it can be said that Korean households are more likely to save for the purchase of a house (or real estate) and children's education.

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[Table 7-2] The Purposes of Household Savings (Q4)
=====

	<u>Primary</u>	<u>Secondary</u>
Purchase house/real estate	28.1	12.3
Educate children	25.8	23.1
Secure future uncertainty	18.0	24.3
Ensure elderly life	10.1	18.3
Purchase household goods	9.8	9.7
Accumulate wealth	4.9	7.1
Other purposes	3.4	5.1
	-----	-----
Valid sample cases	100.0 % (388)	100.0 % (350)

=====

For analyzing in more detail, the primary purpose of household savings are cross-tabulated by the demographic profiles of respondents (See appendix 7-2), there are significant differences found within the 0.05 level of probability². The results are :

First, the younger households are more likely to save to purchase a house or real estate and to secure future uncertainty. As households become older, the purposes of savings are shifted to educate children, to ensure an elderly life, to accumulate wealth and to prepare others (eg. repayment of borrowing, holiday, bequest, marriage of children).

Second, the lower income households have, the more likely to

² : For a variable of budget planner, 0.10 level of significance (probability) is used.

save for the purchase of a house (or real estate) and household goods and the accumulation of wealth generally. As households become richer, their purposes of savings seem to be shifted into education of children and security of an elderly life, by reducing little by little the purpose of the purchase of a house (or real estate).

Third, who is a household budget planner also seems to influence the purposes of household savings. Husbands (as household budget planners) tend to save for the purchase of household goods and others. It can be interpreted by the fact of the recent strong trend of my-car boom in Korea among husbands. Korean wives are more likely to consider future uncertainty and elderly life. When both husband and wife are planned a household budget together, they seem to be concerned about the purchase of a house (or real estate) and children's education.

However, the differences between resident places, educational levels and occupational groups in these sample units are not large enough to assume that they exist in the population as well (See appendix 7-2).

[Table 7-3] The Potential Usage of Windfall		(Q24)
Purchase in house or real estate	44.7	
Investment in shares	23.9	
Savings in FIs-HSM	18.1	
Lend privately	6.5	
Invest in (auxiliary) business	4.0	
Other	2.8	

	100.0 %	
Valid sample cases	(398)	

In the connection with the purposes of household savings, as respondents were asked to express how they may use an unforeseen windfall, slightly less than a half of them intended to use the unforeseen windfall for the purchase of a house or real estate, as shown in table 7-3. Analyzing the aspects above with the responses in question 4 presented in table 7-2 shows that Korean households are strongly likely to possess a house (or real estate) in the situation of the rapid

increase in house price, either for the secured family life or for investment purposes. In line with the recent explosive growth of popularity in direct investment in shares due to the potential high profitability provided, about less than a quarter (44.7 %) of respondents intended to invest it in shares directly. However, only less than a fifth (18.1 %) of them intended to save it in FIs-HSM. It seems to indicate FIs-HSM can not properly attract households into their premises.

7.2. THE GENERAL PROPENSITIES OF HOUSEHOLD SAVINGS

Korean housewives have played a major role in the decision of household budget and savings, although they consult with their husbands, to some degree, as shown in table 7-4. Almost all (94.4 %) of Korean households save either a fixed amount regularly (48.1 %), an unfixed amount but regularly (29.5 %), or an unfixed amount irregularly (16.9 %) as shown in table 7-5. These points reflect a possession of the certain kinds of savings accounts by households which will be explained in the section 7.10 of this chapter.

As savings habit of households is cross-tabulated by the demographic profiles (See appendix 7-3), the result shows that those who are living in 5-big cities are more likely to save a fixed (or unfixed) amount regularly than others. However, those who are living in medium/small cities or rural areas are more likely to save an unfixed amount irregularly than those who are living in the areas of big cities.

As households start to save, 41.9 percent of them tend to choose a financial institution and then decide savings account(s), and about a quarter (25.4 %) of them is likely to decide savings account(s) and then choose a financial institution, as

shown in table 7-6.

```

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[Table 7-4] Budget (Savings) Planner of Household (Q1)
=====
Wife 37.0
Wife & husband 32.9 69.9
Husband 27.1
Other 2.9
-----
Valid sample cases 100.0 %
(413)
=====

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[Table 7-5] The Habit of Savings (Q2)
=====
Fixed amount regularly 48.1
Unfixed amount regularly 29.5 77.6 94.4
Unfixed amount irregularly 16.9
No savings have 5.6
-----
Valid sample cases 100.0 %
(414)
=====

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[Table 7-6] Which One is Firstly Considered (Q3)
=====
FIs-HSM and then account 41.9
Either one without any consideration 32.7
Account and then FIs-HSM 25.4
-----
Valid sample cases 100.0 %
(382)
=====

```

It seems that FIs-HSM can directly attract about three quarters (41.9 % + 32.7 %) of households to use their savings accounts (products) through effective communication with households about their image and character, without a major concentrated effort to promote their products. It also emphasizes how important to recommend the right savings account to the right new households who enter their premises and ask to get some advice from the counter personnel about the suitable savings account for household savings.

7.3. THE USAGE OF FIs-HSM

Asked in question 5 where they mainly deposit their savings, eighty-eight percent of respondents chose FIs-HSM (44.6 % in DMBs and 43.4 % in NBFIs³) as the deposit places, and twelve percent of them said they put their household savings in investment in shares directly or "Kye" as shown in table 7-7.

[Table 7-7] The Main Deposit Place of Savings		(Q5)
Nationwide commercial bank	16.6	} 44.6
Local bank	14.5	
Specialised bank	13.5	
Credit cooperative	18.7	} 43.4
Mutual savings and finance company	10.4	
Investment trust company	8.8	
Investment and finance co./Other FIs-HSM	5.5	} 12.0
Direct investment in shares	4.7	
In "Kye"	7.3	

	100.0 %	
Valid sample cases	(385)	

The crosstabulation of FIs-HSM, which are categorized collectively into either DMBs or NBFIs, by the demographic profiles (See appendix 7-4) shows :

First, those who are between 40 and 59 years old are more likely to deal with NBFIs, but those who are either under 40 years old or over 60 years old tend to prefer DMBs, as their deposit places of household savings.

Second, households led by either self-employed or daily workers are likely to prefer to deposit their savings in DMBs, but households led by either salary workers or professionals tend to prefer to use NBFIs.

Third, the higher income households have, the less likely to use DMBs and the more likely to use NBFIs. But, the higher income households have, they are more likely to save in ITCs, investment finance companies, and to invest in shares (See appendix 7-5).

³ : These include MSFCs, ITCs, investment and finance companies, CCs, and other FIs-HSM.

Fourth, more households in Seoul than households in other areas are likely to put their savings in NCBs, shares and SPBs, but households in 5-big cities are more likely to deal with ITCs and investment finance companies. Households in medium/small cities or rural areas are more likely to put their savings in LBs, MSFCs, and/or CCs (See appendix 7-6).

=====

[Table 7-8] The Number of FIs-HSM Dealt With (Q6)

	<u>value</u>	<u>percent</u>	
One	1	25.4	
Two	2	35.1	} 74.6
Three	3	24.8	
Four or more	4	14.7	

		100.0 %	
Valid sample cases	339	Mean	2.29
Standard deviation	1.01		

=====

Of the total respondents using FIs-HSM for savings, about a quarter of them deals with only one FIs-HSM, and about three quarters of them use more than two FIs-HSM, as shown in table 7-8. The cross-tabulation of the number of FIs-HSM dealt with by the demographic profiles shows those households led by self-employed householder tend to use many FIs-HSM for household savings (See appendix 7-7). However, those households led by salary workers are more likely to use a few number of FIs-HSM.

7.4. THE ATTRIBUTES INFLUENCING ON THE CHOICE OF FIs-HSM

In questions from 7 to 15, respondents were given the nine characteristics (or attributes) influencing the choice of FIs-HSM, and were asked to rate the importance of the nine attributes of FIs-HSM as choosing one FIs-HSM over

other(s) by indicating from one-to-five Likert-type scale provided. In the scale of this survey, 1 represents "very unimportant", and 5 represents "very important". The average rating for each of the nine attributes is prepared in table 7-9.

Respondents rated the friendly customer services as the most important attribute on the choice of FIs-HSM. The internal and external atmosphere of FIs-HSM was marked as the second most important attribute, and the possibility of getting household loans related to savings account, which FIs-HSM provide, was ranked as the third one. Interestingly and surprisingly, the convenient location - traditionally considered as a very important attribute - was marked as the fourth one.

=====
 [Table 7-9] Attributes Influencing on Choosing FIs-HSM (Q7-Q15)

	1	2	3	4	5	Total	Mean	St.D	Rank
A =	0.0	1.2	12.7	20.6	65.5	100.0	4.50	0.76	1
B =	0.6	2.1	15.6	23.3	58.4	100.0	4.37	0.86	2
C =	0.0	1.8	16.5	29.8	51.9	100.0	4.32	0.81	3
D =	0.0	2.4	19.5	28.6	49.6	100.0	4.25	0.85	4
E =	0.0	1.2	20.4	32.2	46.3	100.0	4.24	0.81	5
F =	1.2	1.8	19.8	31.9	45.4	100.0	4.19	0.89	6
G =	0.0	1.8	29.2	26.5	42.5	100.0	4.10	0.88	7
H =	1.5	7.1	22.4	31.4	37.2	100.0	3.96	1.01	8
I =	3.8	13.0	28.7	25.1	29.3	100.0	3.63	1.15	9

1 : Very unimportant 2 : Somewhat unimportant 3 : So-So
 4 : Somewhat important 5 : Very important

A : Friendly customer services
 B : Internal and external atmosphere of FIs-HSM
 C : Possibility to get household loans related to savings account
 D : Convenient location of FIs-HSM
 E : Good reputation of trust and safety of FIs-HSM
 F : Speed of deposit-taking and withdrawal process
 G : Profitability provided by FIs-HSM
 H : The range of savings (and related) products
 I : Coverage of branch network

Valid sample cases = 339 (338 in the network coverage)
 =====

The attributes of (a) the reputation about trust and safety of FIs-HSM, (b) the speed of deposit-taking and withdrawal process, (c) the profitability provided by FIs-HSM, and (d) the range of savings (and related) products for households were ranked from the fifth to the eighth, in important sequence. Finally, the attribute of the coverage of branch network was ranked as the last one. However, the attributes ranked in low scales indicate that - while respondents do not necessarily consider these attributes are totally unimportant - they are less important than the other attributes.

7.4.1. ANALYSIS OF VARIANCE TEST TO THE NINE ATTRIBUTES

Analysis of variance (ANOVA) test is used to determine whether the significant differences among the demographic profiles exist toward the nine attributes in questions (statements) from 7 to 15. The results which show significant differences among the demographic profiles within the 0.05 level⁴ can be interpreted as showing that significant differences exist between the attributes and the demographic profiles of respondents.

First, for the attribute of the speed of deposit-taking and withdrawal process, significant differences exist among age levels, among educational levels and among household income levels, as shown in appendix 7-8. Those respondents who are young, are educated to high school levels, and have between 1.0 mn and 1.5 mn Won of monthly household income tend to be more concerned about the speed of

⁴ : As a supplement of this one, the test is again carried out within the extended 0.10 level of probability.

deposit-taking and withdrawal process of FIs-HSM. However, respondents who have more than 1.5 mn Won of monthly household income are less likely to be concerned about the speed of deposit-taking and withdrawal process of FIs-HSM.

Second, for the attribute of the internal and external atmosphere of FIs-HSM (See appendix 7-9), significant differences exist among age levels, among educational levels, and among household incomes. Respondents who are more than 50 years old, and have between 0.5 mn and 1.0 mn Won of monthly household income are more likely to be concerned about the atmosphere of FIs-HSM. However, respondents who are between 40 and 49 years old, are well-educated, and have less than 0.5 mn Won of monthly household income are less likely to be concerned about the atmosphere of FIs-HSM.

Third, ANOVA test shows that significant differences exist between the attribute of the friendly customer services and among educational levels and among levels of household income, as shown in appendix 7-10. Those who are highly-educated are more likely to be concerned about the friendly customer services. The more household income households have, the less likely to be concerned about the friendly customer services provided by FIs-HSM.

Fourth, for the attribute of the range of savings (and related) products for households, a significant difference exists among educational levels (See appendix 7-11). Respondents who are highly-educated indicated a lower score to the ranges of savings (and related) products for households, as an important attribute in choosing FIs-HSM.

For the fifth attribute of the possibility of getting household loans related to savings account(s) they possess, significant differences exist among resident places

and among household income levels, as shown in appendix 7-12. Respondents who live in medium/small cities and rural areas, and who have between 0.5 mn and 2.0 mn Won of monthly household income are more concerned about the possibility of getting household loans in connection with their savings account.

Sixth, for the attribute of the profitability provided by FIs-HSM, a significant difference exists among age levels (See appendix 7-13). Respondents who are under 39 years old are more keen to the profitability provided, but respondents who are between 40 and 49 years old are less keen to the profitability provided.

The significant differences between the three attributes (such as the coverage of branch network of FIs-HSM, the reputation of the trust and safety of FIs-HSM, and the convenient location of FIs-HSM) and the demographic profiles of respondents do not exist within the 0.10 level of probability applied to.

7.4.2. THE NINE ATTRIBUTES AND THE CHOICE OF FIs-HSM

As the nine attributes and FIs-HSM chosen by households are cross-studied (See table 7-10), first, those who are more concerned about the friendly customer services are more likely to have their savings with CCs, MSFCs or NCBs. Second, those who are more concerned about the internal and external atmosphere of FIs-HSM are more likely to put their savings in CCs or ITCs. Third, those who are more concerned about the possibility to get household loans related to savings account are more likely to use LBs, SPBs, MSFCs or CCs. Fourth, those who are more concerned about the convenient location of FIs-HSM are more likely to have their savings in CCs, SPBs or ITCs.

=====
 [Table 7-10] The Nine Attributes and The Choice of FIs-HSM
 =====

	NCBs	LBs	SPBs	DMBs	MSFCs	CCs	ITCs	NBFIs	(AVG.)
A =	4.53	4.39	4.48	4.44	4.60	4.67	4.38	4.58	4.50
B =	4.33	4.30	4.33	4.32	4.30	4.51	4.50	4.45	4.37
C =	4.16	4.45	4.44	4.34	4.43	4.40	4.03	4.32	4.32
D =	4.17	4.21	4.27	4.22	4.20	4.42	4.26	4.32	4.25
E =	4.34	4.14	4.27	4.26	4.33	4.25	4.15	4.25	4.24
F =	4.13	4.39	4.06	4.19	4.15	4.21	4.18	4.18	4.19
G =	3.91	4.20	3.94	4.01	4.15	4.31	4.06	4.21	4.10
H =	4.13	3.71	3.92	3.93	3.98	4.08	3.85	4.00	3.96
I =	3.83	3.52	3.81	3.72	3.25	3.61	3.68	3.52	3.63

- A : Friendly customer services
 - B : Internal and external atmosphere of FIs-HSM
 - C : Possibility to get household loans related to savings account
 - D : Convenient location of FIs-HSM
 - E : Good reputation of trust and safety of FIs-HSM
 - F : Speed of deposit-taking and withdrawal process
 - G : Profitability provided by FIs-HSM
 - H : The range of savings (and related) products
 - I : Coverage of branch network
- =====

Fifth, those who are more concerned about the good reputation of trust and safety of FIs-HSM tend to put their savings in NCBs, MSFCs or SPBs. Sixth, those who are more concerned about the speed of deposit-taking and withdrawal process tend to use LBs or CCs. Seventh, those who are more concerned about the profitability provided by FIs-HSM tend to put their savings in CCs, LBs or MSFCs. Eighth, those who are more concerned about the range of savings (and related) products are more likely to put their savings in NCBs, MSFCs or CCs. Ninth, those who are more concerned about the coverage of branch network tend to use NCBs, SPBs or ITCs.

7.4.3. CORRELATION ANALYSIS TO THE ATTRIBUTES

As shown in appendix 7-14, the results of correlation analysis applied to the

nine attributes show that those who are more concerned about the speed of deposit-taking and withdrawal process of FIs-HSM - as important attribute - are more likely to be concerned about the convenient location of FIs-HSM, as important attribute in the choice of FIs-HSM correlatively, to some degree. And those who are more concerned about the friendly customer services - as important attribute - are more likely to be concerned about the convenient location of FIs-HSM as important attribute correlatively, to some degree. However, their relationships are not strong enough to explain their correlative movements. The rest shows very weak cor-relationship with other attributes.

7.5. THE FACTORS INFLUENCING ON THE CHANGE OF FIs-HSM

As respondents were asked in which circumstance they want to change FIs-HSM which they dealt with, 21.9 percent of them indicated the deterioration of trust/safety of FIs-HSM, 18.3 percent said the inferiority of location (comparing with other FIs-HSM in the well-located site), 17.1 percent said the deterioration of the atmosphere of FIs-HSM and of level of other customers of FIs-HSM, and 14.4 percent said the inferiority of profitability provided (See table 7-11).

The opinion about the attribute which strongly influences the change in FIs-HSM is cross-tabulated by the main FIs-HSM dealt by households (See appendix 7-15). Even though this cross-tabulated table does not show a strong significant difference between the two variables, it can show the following facts. First, those households who are using mainly DMBs for household savings are likely to change FIs-HSM, if the reputation about the trust and safety of FIs-HSM deteriorates, if

the location becomes inferior (compared with other FIs-HSM) and others, in sequence. Second, those who are using mainly NBFIs for household savings are likely to change FIs-HSM, if the reputation about the trust and safety of FIs-HSM deteriorates, if the atmosphere becomes inferior, if the profitability provided becomes inferior (compared with other FIs-HSM) and others, in sequence.

```

=====
[Table 7-11] The Factor Forced to Change in FIs-HSM (Q16)
=====
Deterioration of trust/safety                21.9
Inferiority of the location of FIs-HSM       18.3
Deterioration of the atmosphere of FIs-HSM
and of level of other customers              17.1
Inferiority of profitability provided         14.4
Deterioration of customer services           12.0
Provide old-fashioned products               11.4
Slow deposit-taking and withdrawal process    5.1
-----
Valid sample cases                            100.0 %
(334)
=====

```

7.6. THE PREFERENCE OF USING "KYE"

As mentioned earlier in table 7-7 of this chapter, 7.3 percent of respondents indicated "Kye" as the main way of putting household savings. The main reasons using "Kye" for household savings are shown in table 7-12.

Slightly more than a third (35.7 %) of respondents uses "Kye" for household savings to keep personal relationship with the members of "Kye", because the members of "Kye" are generally composed of among relatives, acquaintances, friends, and workmates. As a result, the members of "Kye" generally enjoy the association with the members of "Kye", as well as savings.

[Table 7-12] Reasons of Preference of "Kye" to Save		(Q5-1)
Keep personal relationship with its members	35.7	
Get household loans easily through "Kye"	32.1	} 60.6
High potential profitability	21.4	
Unfamiliar with FIs-HSM	7.1	
Other	3.6	

	100.0 %	
 Valid sample cases	 (28)	

However, slightly less than two thirds (60.6 %) of respondents said that the reasons for using "Kye" for household savings were to get household loans easily through "Kye", and/or to have a high potential profitability, along with their unfamiliarity of FIs-HSM, other than to keep personal relationship with its members. Therefore, it can imply that FIs-HSM can induce about two thirds of households who use "Kye" to use their products for household savings dependent upon their efforts in the market.

7.7. THE MATTERS ABOUT HOUSEHOLD LOANS

When households were forced to borrow a large amount (ie. a similar amount of a household's annual income) of money, and when they had to consider the potential lender(s), 47.0 percent of them preferred to ask DMBs for household loans, as shown in table 7-13. On the other hand, 40.3 percent of them preferred to ask NBFIs (MSFCs, CCs or other FIs-HSM), and 12.7 percent preferred to ask either a private lender or friends for household loans.

The potential lender(s) of household loans may be searched by respondents based on the following aspects : simple and fast way of getting household loans,

connection with savings account they had, good interest rate charged and others, in sequence (See table 7-14).

```

=====
[Table 7-13]  The Favourable Source of Borrowing                                (Q25)
=====
Credit cooperatives                                20.8
Mutual savings and finance companies              17.1
Specialised banks                                 16.9
Nationwide commercial banks                       15.4
Local banks                                       14.7
Private lender or friends                         12.7
Other FIS-HSM                                    2.4
-----
Valid sample cases                                100.0 %
                                                    (409)
=====

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```

=====
[Table 7-14]  The Consideration on Borrowing                                (Q26)
=====
Simple and fast way                                29.4
Connection with savings account(s)                27.5
Good interest rates charged                       19.1
Personal relationship                             11.3
No requirement of collateral                      10.0
Other                                              2.7
-----
Valid sample cases                                100.0 %
                                                    (408)
=====

```

As the preference of lender shown in table 7-13 is cross-tabulated by the attributes affecting on the choice of lender(s) shown in table 7-14, the result shows a statistically significant difference. Therefore, it can be assumed that those who prefer different lenders are influenced by different attributes (See appendix 7-16).

Those who like to ask DMBs for household loans are more likely to consider such attributes as : household loans related to savings account(s) with DMBs and good interest charged. Those who prefer to ask NBFIs for household loans are more likely to be concerned about such attributes as : simple and fast way of borrowing and household loans related to savings account(s) of NBFIs. Those who are more

likely to ask a private lender or a friend for household loans tend to consider such attributes as : simple and fast way of borrowing and no requirement of collateral over household loans.

7.8. OPINION ABOUT AUTOMATION AND LOYALTY OF FIs-HSM

Asked opinion about the instalment of CDs/ATMs by FIs-HSM, 29.0 percent of respondents showed a positive attitude such as : CDs/ATMs can provide a speedy and convenient services for customers in the market as shown in table 7-15. However, 21.0 percent of them said that CDs/ATMs transfer at customer services provided by the personnel to the machines installed mainly in the premises of FIs-HSM. On the other hand, 45.9 percent of household did not have any preferences as to whether the machines are installed or not.

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=====
[Table 7-15]  The Attitude to The Instalment of CDs/ATMs      (Q17)
=====
      No difference in services provided          45.9
      Speed and convenience services             29.0
      Mechanical services, without humane        21.0
      No idea at all                             4.1
      -----
      Valid sample cases                          100.0 %
      (338)
=====

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=====
[Table 7-16]  Opinion about The Loyalty in FIs-HSM           (Q23)
=====
      Use the present FIs-HSM                    48.7
      Use FIs-HSM provides various/wide products 21.2
      Use FIs-HSM provides specialised/narrow prod. 16.1
      No idea at all at present                  14.0
      -----
      Valid sample cases                          100.0 %
      (335)
=====

```

Although FIs-HSM are expected to change the scope of their operations in

HSM in the near future, about a half (48.7 %) of respondents expressed their continuous loyalty to the present FIs-HSM which they use, regardless of any change to occur, as shown in table 7-16.

In addition, the opinion about the future change in FIs-HSM is cross-tabulated by the demographic profiles of respondents. There is a significant difference found in cross-tabulated analysis within the 0.10 level of probability⁵ as shown in appendix 7-17. Consequently, this difference is statistically significant, and it can be assumed that those in the population really differ according to occupation groups in terms of their opinion about the future change in FIs-HSM. Households led by professionals and self-employed workers (compared with others in different occupation groups) are less likely to keep on using the present FIs-HSM which they deal with. Among those who wish to change FIs-HSM, households led by professionals and self-employed workers tend to change to one of those FIs-HSM which provide a various and wide range of products.

7.9. INFORMATION ABOUT FIs-HSM AND/OR SAVINGS PRODUCTS

As respondents were asked where they get information about FIs-HSM and/or savings products which can influence their choice of FIs-HSM, 27.6 percent of them said that they obtained the information from advertisements in newspapers or magazines, as shown in table 7-17. Again, 27.6 percent of them said that they came into contact with the information from personal sources : relatives, family members, acquaintances, and/or friends.

⁵ : Because there is no significant differences shown within the 0.05 level of probability.

=====
 [Table 7-17] The Sources of Information about FIs-HSM and/or Savings Products, As Deciding FIs-HSM (Q18)
 =====

Newspaper/magazine advertisements	27.6		
Associates or acquaintances	20.8	□	
Relatives or family members	6.8		27.6
Television advertisements	14.5		
Radio advertisements	14.2		
By seeing a signboard/outside ad.	12.5		
Advertisement pamphlets	3.6		

	100.0 %		
Valid sample cases	(337)		

=====
 [Table 7-18] The Usefulness of Information Obtained (Q19)
 =====

Provide enough and useful information	36.3		
Provide insufficient but useful inform.	36.3	□	
Provide insufficient and useless inform.	27.3		63.6

	100.0 %		
Valid sample cases	(333)		

About the usefulness of information provided by the sources mentioned above, 36.3 percent of respondents said that the information about FIs-HSM and/or savings products was useful and enough to make them choose FIs-HSM and/or savings products, as shown in table 7-18. However, 27.3 percent of them said that the information was useless and insufficient, and about two thirds (63.6 %) of them said that the information was insufficient.

As the cross-tabulation is applied between the information sources and the usefulness of information provided, the result does not show a significant difference within the 0.05 level (and 0.10 level) of probability.

7.10. THE MAIN SAVINGS ACCOUNTS OF HOUSEHOLDS

Of the total responded households, 94.4 percent of them have saved as shown

in table 7-5 of the earlier. Of those who saved, 88.0 percent of them have used FIs-HSM for putting their savings in, as shown in table 7-7. About four fifths (79.5 %) of those who have dealt with FIs-HSM for their savings (replied in question 21) said that they have had more than two savings accounts with FIs-HSM, and about thirty percent of them have had more than three savings accounts (See table 7-19). Therefore, it can be easily assumed that HSM of Korea has been saturated by FIs-HSM.

=====
 [Table 7-19] The Number of Savings Account(s) (Q21)

	<u>value</u>	<u>percent</u>		
One	1	20.5		
Two	2	49.1	} 30.4	79.5
Three	3	25.3		
Four or more	4	5.1		

		100.0 %		
Valid sample cases	336	Mean		2.15
Standard deviation	0.80			

=====
 [Table 7-20] The Main Savings Account (Q22)

Mutual (housing) instalment deposit	28.9	} 65.8	
Instalment savings deposit	22.0		
Workman's property formation deposit	14.9		
Savings (self-support., prefer.) deposit	13.7		
Money in trust	6.0		
Time (mutual time) deposit	4.8		
Beneficial certificate	3.6		
Other	3.3		
Cash management account (CMA)	3.0		

		100.0 %	
Valid sample cases	(336)		

Asked to indicate the main savings account possessed, about two thirds (65.8 %) of respondents revealed using such savings accounts - having the terms of regular fixed savings - as mutual instalment deposit, instalment savings deposit,

and workman's property formation deposit, as shown in table 7-20. It can be explained in connection with the previous question 2 about the habit of household savings, as shown in table 7-5.

The main savings account possessed is cross-tabulated by the demographic profiles (See appendix 7-18). The results are :

More households in Seoul or 5-big cities than households in medium/small cities or rural areas tend to have workman's property formation deposit, beneficial certificate, CMA, or other kinds of savings accounts.

Households in medium and small cities or rural areas are more likely to have time deposit (and money in trust), instalment savings deposits, or mutual instalment deposit than households in Seoul or 5-big cities.

The more educated respondents are, the less likely to use time (and money in trust) and savings deposit, and the more likely to use CMA, beneficial certificate, or other deposits. Households who are educated to a high school level are more likely to have instalment savings deposit, or workman's property formation deposit.

However, the differences between age groups, occupation groups, household income levels and budget planners in this sample are not large enough to assume they exist in the population as well.

[Table 7-21] Considerations on Opening Savings Account (Q20)	
Safety	26.5
Chance to get household loans	25.4
High profitability	17.4
Possibility of small amount savings	15.3
Easy withdrawal and deposit	13.6
Other	1.8

	100.0 %
Valid sample cases	(339)

On opening savings account(s), households tend to be concerned about the

safety of their savings (26.5 %), the chance to get household loans related to savings account (25.4 %), the high profitability (17.4 %) and others, as the main consideration, as shown in table 7-21. As main savings account possessed is cross-tabulated by the reason of the preference of the certain account (See appendix 7-19), the results are :

Those who indicate either time deposit or money in trust as their main savings account tend to be more concerned about the safety of their savings and profitability.

Those who indicate savings deposit, CMA or beneficial certificate as their main savings account tend to be more concerned about the easy way of deposit and withdrawal, and the safety of their savings.

Those who say either instalment savings deposit or mutual instalment deposit as their main savings account tend to be more concerned about the chance of getting household loans related to savings account.

Those who have workman's property formation deposit, as their main savings account, are more likely to be concerned about the profitability provided by FIs-HSM.

7.11. THE METHODS OF PAYMENT SETTLEMENT

Asked opinion about the methods of the payment settlement for shopping in department stores, about three quarters of respondents said a cash as their main means of payment (See table 7-22). Therefore, it can be easily interpreted that Korean society is a cash oriented society. Again, asked why they prefer cash as the main means of payment, they responded as shown in table 7-23. It implies FIs-HSM can attract more financial assets of households into their premises, if they can provide alternative methods of payment settlement for cash - featured by an easy way of payment and an easy way of controlling balance in connection with savings

account(s) through the use of technology (eg. credit card, direct debit, EFTPOS).
 Therefore, it can be said that FIs-HSM in Korea have some room for further expansion in HSM.

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=====
[Table 7-22]  The Methods of Payment                                (Q21)
=====
Cash                75.1
Credit card        15.7
Household check    4.8
Other method       4.3
-----
Valid sample cases 100.0 %
                    (414)
=====
  
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=====
[Table 7-23]  Preference of A Cash as A Payment Method          (Q27-1)
=====
Ease way of payment 30.1
Controlling balance easily 20.7
Not accustomed to other methods 19.1
Store's reluctance to accept others 15.2
Without any special reasons 14.9
-----
Valid sample cases 100.0 %
                    (309)
=====
  
```


PART TWO : RESEARCH FINDINGS FROM FIs-HSM SURVEY

This part of the chapter deals with the analyses of data collected from FIs-HSM survey. The main purpose of analyzing the data is to provide DMBs with the methods of differentiation themselves from their competitors in order to achieve competitive positions in the market they serve.

7.12. UNDERSTANDING OF THE OPERATIONS OF FIs-HSM

In order to understand a whole picture of the operations of FIs-HSM, the first part of the questionnaire asked FIs-HSM their strategies about product ranges, interest rates, delivery system, promotion of their corporate image and/or products, training of newly employed personnel, market segmentation, and market research.

7.12.1. ASPECTS ABOUT PRODUCTS

Asked to reveal their strategies about savings (and related) products for households, almost all of FIs-HSM said they tried to provide households with all savings (and related) products permitted by their regulations, as shown in appendix 7-20. On launching new savings (and related) products, the majority of all FIs-HSM but ITCs complained about the excessive interference of regulatory authorities as the main hindrance. It implies that each of FIs-HSM in the same group (eg. NCBs, ITCs, MSFCs) deals with almost the same products in HSM because they are regulated by the same regulatory authorities (eg. the Monetary Board, the MOF),

and because they have a strong tendency to deal with almost all the products they are permitted to engage in. Owing to the heavy regulations imposed on them, FIs-HSM have taken passive attitudes toward the R&D for launching new products. Besides, even though an FIs-HSM develops a new product, it must obtain a consent from the regulatory authorities before launching it on the market, and the new product can be easily copied by others in the absence of patent.

FIs-HSM were asked in question 3 to express the potential direction about the product ranges with which they may deal if they were allowed to engage freely in all of the prevalent savings (and related) products available⁶. About sixty percent of DMBs - NBBs (combination of NCBs and SPBs) and LBs - said that they may diversify and enlarge the existing product ranges and start to engage in new allowed product(s) immediately⁷ as shown in appendix 7-20. Interestingly, 93.1 percent of MSFCs intended to enlarge the range of their products into the new product ranges permitted. It implies that a great number of FIs-HSM have felt that they have been restricted to engage freely in savings (and related) products in HSM, and they eager to deal with product(s) of other FIs-HSM which show potential profitability.

7.12.2. ASPECTS ABOUT INTEREST RATES

About the strategy on interest rates paid to savings accounts which they deal

⁶ : Including the products which are allowed to some groups of FIs-HSM, but which are not allowed to other groups of FIs-HSM.

⁷ : However, 5 of 12 NBBs said they were going to step with the reaction of competitors in the market, and 3 of 8 local banks said they preferred to keep on their present product ranges and to specialize in their original products.

with, two thirds of DMBs, as well as MSFCs and CCs, indicated that they decided their own interest rates absolutely based on the maximum guideline given by their regulatory authorities such as the Monetary Board, the BOK and the MOF (See appendix 7-21). Only a tenth of DMBs tried to consider the market conditions on the decision of interest rates⁸. Therefore, the maximum interest rates guided by the regulatory authorities have been practically and directly applied into interest rates of most of DMBs, as well as MSFCs and CCs.

Because the discretion of FIs-HSM about interest rates has been restricted by their regulatory authorities for a long period, FIs-HSM have had a passive attitude on the decision of interest rates in HSM. Therefore, 5 out of 8 LBs - as well as 64.3 percent of CCs and 75 percent of MSFCs - showed an anxiety over the possible liberalization of interest rates because the liberalization may increase operating costs and reduce their profits (See appendix 7-21). However, a half of NBBs showed a positive attitude by expressing the opinion that the liberalization of interest rates may decrease operating costs and increase their profits.

7.12.3. ASPECTS ABOUT DELIVERY SYSTEMS

A great majority of FIs-HSM (eg. 95.0 % of DMBs) wanted to open and sustain all branches which were permitted to them, as shown in appendix 7-22. However, 1 of 12 NBBs, 2 of 29 MSFCs and some of the CCs said that they would keep the present level of branches. The reasons seem to be either they regard the

⁸ : However, 3 of 5 ITCs considered the market conditions on the decision of their profitability providing.

market is already a saturated one, they do not have enough capital to invest in the fixed assets, or they do not want to invest in the fixed assets in the unpredicted periods caused by the deregulation of financial market expected.

About the installation of CDs/ATMs, about two thirds of DMBs indicated the positive impacts of their installation : CDs/ATMs could lessen the work-load of their counter personnel, could enhance a chance to provide better customer services by their counter personnel, and ultimately could provide them competitive advantages in the market over those FIs-HSM (eg. MSFCs, CCs) which do not have CDs/ATMs (See appendix 7-22). However, a quarter of DMBs worried about that the mere mechanical services of CDs/ATMs (instead of services provided by human tellers with a bright smile) and a frequent break-down of the machines could lessen competitive advantages over those FIs-HSM, which did not have CDs/ATMs and provided services by the personnel. On the other hand, a great majority of both MSFCs and CCs expressed their competitive disadvantages from their absence of CDs/ATMs installed.

7.12.4. ASPECTS ABOUT PROMOTIONS

Question 8 asked to indicate the promotional instruments used to promote corporate image and/or products. As the prime method, a half of LBs and 69 percent of CCs emphasized personal contact with customers, but none of NBBs mentioned personal contact with customers, as shown in table 7-24. More than a half of NBBs and of ITCs emphasized the usages of pamphlets, signboards and/or outside advertisements. MSFCs emphasized mainly the usages of pamphlets,

signboards and/or outside advertisements, and personal contact with customers.

As FIs-HSM were allowed to choose up to three most important methods which they used to promote corporate image and their products as shown in appendix 7-23, first, NBBs pointed out the usages of pamphlets, signboards and/or outside advertisements (30.6 %), free promotional gifts (19.4 %), newspaper and/or magazine advertisements (16.7 %), personal contact with customers (13.9 %) and others. Second, LBs said personal contact with customers (25.0 %), the usages of pamphlets, signboards and/or outside advertisements (16.7 %), newspaper and/or magazine advertisements (16.7 %), sponsorship (16.7 %) and others. Third, many of ITCs, MSFCs and CCs indicated personal contact with customers, and the usages of pamphlets, signboards and/or outside advertisements, along with providing free promotional gift.

=====
 [Table 7-24] Promotion Instruments of FIs-HSM/Savings Products (Q-8)

First choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Personal contact with customers	(4)	(0)	20.0	(2)	27.6	69.0
TV and/or radio advertisements	(1)	(1)	10.0	(0)	10.3	0.0
Newspaper/magazine advertise.	(1)	(2)	15.0	(0)	17.2	9.5
Pamphlet/signboard/outside ad.	(1)	(7)	40.0	(3)	31.0	14.3
Provide promotional gift	(0)	(0)	0.0	(0)	13.8	7.1
Sponsorship in events	(1)	(1)	10.0	(0)	0.0	0.0
Other methods	(0)	(1)*	5.0*	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

* = Campaign in the street.

=====
 As their promotional instruments, a high portion of FIs-HSM in all different groups used mainly pamphlets, signboards and/or outside advertisements, and personal contact with their customers, together with providing promotional gift (eg. calendar, towel or diary), and newspaper/magazine advertisement, other than

TV/radio advertisement. As shown in appendix 7-23, a great majority of FIs-HSM (eg. 75.0 % of DMBs, 79.3 % of MSFCs) indicated enhancement of corporate name and image, as their main promotional objectives. However, 20.0 percent of DMBs indicated increase in the awareness of their products, as their main promotional objectives.

7.12.5. ASPECTS ABOUT STAFF TRAINING

Initially, 9 in 12 NBBs and 4 in 5 ITCs trained their newly employed personnel for less than a 1 month period before giving them tasks. However, 5 of 8 LBs (and 62.1 % of MSFCs and 56.4 % of CCs) trained their newly employed personnel more than a 1 month period, as shown in appendix 7-24. It can imply that more LBs (as well as MSFCs and CCs) than NBBs emphasize the initial staff training. Besides, the following will provide some information about the awareness of bank personnel.

The survey of the bankers' awareness in 90s⁹ revealed some information about awareness and working conditions of the bankers of DMBs. First, the reasons to choose a bank as a working place were - a stabilized working place in a life-time (61.7 %), the recommendation of other people (13.9 %), and the good remuneration (4.0 %). Second, 32.8 percent of bankers showed their satisfaction on the education/training given by a bank, but 18.5 percent of them said dissatisfaction on that. Third, 40.5 percent of bankers were satisfied with their current duty, but 22.5 percent of bankers were dissatisfied with their current duty. Fourth, as the main dissatisfactory factor of

⁹ : It was conducted by the national bank association between the 1st of September and the 3rd of November 1990 by targeting bankers in 28 banks of Korea. It was intended to understand the duties and working conditions of bankers, and the awareness of the personal matters of bankers, and to use the collected information for the improvement of bank management, of administration of branches and personnel, of working conditions and welfare of bankers. It was extracted from "the survey of the bankers' awareness in 90s" in Finance (Korea), National bank association, November 1990, pp. 15-30.

a bank as a working place, bankers said the high risk due from dealing money (26.0 %), the retarded promotion (22.7 %), the simple and repeated duty (21.9 %), the low remuneration (16.5 %) and others. Fifth, as the main hinderance on performing duties, bankers said the shortage of personnel (28.3 %), the heavy internal interference imposed (22.9 %), the lack of operational knowledge (18.6 %), the potential risk of financial incident (13.2 %), and others. Finally, on the matters of banks' human resource management about evaluation, promotion and movement, 18.9 percent of bankers indicated as fair treatment, but 33.0 percent of them complained unfair treatments.

7.12.6. ASPECTS ABOUT MARKETING SEGMENTATION/RESEARCH

Even though sixty percent of DMBs indicated that they segmented customers in sub-groups in HSM, but only a handful (1 in 12 NBBs and 1 in 8 LBs) of DMBs segmented customers, to a large extent, based on the unique-shared characteristics of their customers, as shown in appendix 7-25. However, 4 of 12 NBBs and 4 of 8 LBs did not segment their customers in the market at all. In general, NBFIs (ITCs, MSFCs and CCs) did not segment their customers, as well.

Two thirds of DMBs conducted customer research in HSM¹⁰, but less than a fifth of NBFIs conducted customer research, as shown in appendix 7-26. As the main purpose of the research, DMBs said to evaluate customer preference and attitudes about FIs-HSM and/or products (53.8 %), to measure the awareness of products (30.8 %), and to evaluate the quality of their customer services acknowledged by their customers (15.4 %). The main purpose of customer research of those NBFIs conducting customer research was to evaluate the quality of their

¹⁰ : A third of those DMBs which did not conducted customer research said that the conducting research is unnecessary (42.9 %), too expensive (28.6 %), and not easy because of the lack of expert (28.6 %) as shown in appendix 7-25.

customer services acknowledged by their customers.

7.13. SELF-ASSESSMENT ABOUT STRENGTHS AND WEAKNESSES

In order to evaluate how FIs-HSM, especially DMBs, understand their strengths and weaknesses in the market over other FIs-HSM belonging to the same group and different groups, the second part of the questionnaire asked FIs-HSM to assess themselves about their strengths and weaknesses in HSM.

7.13.1. SELF-ASSESSMENT ABOUT STRENGTHS

Asked for a self-assessment about their main strength over other banks in HSM, 8 in 12 NBBs and 6 in 8 LBs picked up their well-located place, as shown in table 7-25. As their main strength over DMBs, 3 in 5 ITCs - as well as 24.1 percent of MSFCs¹¹ and 54.8 percent of CCs - indicated their high profitability. Therefore, it seems that DMBs emphasize the location of their branches in the market, but NBFIs emphasize their high profitability as their main strength over banks in HSM.

As they were asked to choose two answers about their strengths over other banks in the market, NBBs picked up the bonus of a well-located place (37.5 %), better atmosphere (20.8 %), higher profitability (20.8 %) and others as shown in appendix 7-27. LBs picked up the well-located place (50.0 %), their better atmosphere (18.8 %), their better customer relationship (18.8 %) and others. About

¹¹ : However, 31.0 percent of MSFCs emphasized their well-located place together with it.

their strengths over DMBs in HSM, ITCs said their higher profitability (40.0 %) and their unique products (40.0 %) were of major importance as shown in appendix 7-27. MSFCs picked up their well-located place (25.9 %), better atmosphere (20.7 %), better customer relationship (19.0 %) and others. CCs emphasized their higher profitability (41.7 %), better atmosphere (22.6 %), better customer relationship (17.9 %) and others.

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 [Table 7-25] Strengths of FIs-HSMs over Banks (Q-15 of All)

First choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Better customer relationship	(1)	(2)	15.0	(0)	13.8	16.7
Profitability providing	(0)	(1)	5.0	(3)	24.1	54.8
Well-located place (branches)	(6)	(8)	70.0	(0)	31.0	7.1
Better atmosphere of FIs-HSM	(1)	(1)	10.0	(0)	17.2	21.4
Expert (*)	(0)	(0)	0.0	(1)	0.0	0.0
Other (#)	(0)	(0)	0.0	(1)	13.8	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

*. For ITCs/MSFCs/CCs, specialized products, instead of expert
 #. financial institutions said their speedy services.

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 [Table 7-26] Strengths of DMBs over NBFIs (Q-16 of DMBs)

First choice	LBs	NBBs	DMBs
Better degree of credibility	(1)	(7)	40.0
Wide customer base	(3)	(1)	20.0
Wide range of products	(1)	(2)	15.0
Better atmosphere of FIs-HSM	(1)	(0)	5.0
Wide coverage of branches	(2)	(1)	15.0
Other	(0)	(1)*	5.0*
			100.0
	(8)	(12)	(20)

(*) = Advanced technology adopted

As their main strength over NBFIs in the market, 7 in 12 NBBs indicated their better degree of credibility, and 3 in 8 LBs emphasized their wide customer bases, as shown in table 7-26. As they were asked to choose two answers, DMBs

said their wide ranges of products (25.6 %), better degree of credibility (23.1 %), wide coverage of branch network (20.5 %), wide customer bases (15.4 %), better atmosphere (12.8 %) and others, as shown in appendix 7-27.

7.13.2. SELF-ASSESSMENT ABOUT WEAKNESSES

Asked for a self-assessment about their main weakness against other banks in the market, 5 in 12 NBBs picked up their inferior atmosphere in comparison with other banks, and 3 in 12 NBBs indicated their inferior coverage of branch networks (See table 7-27). However, 7 of 8 LBs emphasized their limited coverage of branch networks as their main weakness against other banks.

Asked to choose two answers, to some extent, DMBs said the inferior coverage of their branch networks (35.0 %), inferior atmosphere (22.5 %), narrow customer base and relaxed customer relationship (20.0 %), the lack of expert (15.0 %) and inferior profitability (7.5 %), as shown in appendix 7-28.

As their main weakness against NBFIs in the market, 11 in 12 NBBs and 7 in 8 LBs indicated their inferior profitability (See table 7-28). As they were asked to choose two answers, DMBs said that their inferior profitability (50.0 %), the excessive management interference by regulatory authorities (20.0 %), the relaxed customer relationship (15.0 %) and their slow customer services (15.0 %) were their weaknesses, as shown in appendix 7-28.

Compared with DMBs in the market, many of ITCs and MSFCs generally emphasized the restricted geographic coverage and the narrow range of products permitted to deal with as their main weakness, as shown in table 7-29. CCs

emphasized their narrow customer bases (28.6 %) and the restricted geographic coverage (26.2 %).

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 [Table 7-27] Weaknesses of DMBs over Other DMBs (Q-17 of DMBs)

First choice	LBs	NBBs	DMBs
Inferior coverage of branch networks	(7)	(3)	50.0
Narrow customer base/relaxed relation	(1)	(2)	15.0
Inferior atmosphere of FIS-HSM	(0)	(5)	25.0
Lack of expert	(0)	(1)	5.0
Other (*)	(0)	(1)	5.0
			100.0
	(8)	(12)	(20)

*. Inferior profitability providing

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 [Table 7-28] Weaknesses of DMBs over NBFIs (Q-18 of DMBs)

First choice	LBs	NBBs	DMBs
Inferior profitability	(7)	(11)	90.0
Management interference by regulat.	(1)	(0)	5.0
Relaxed customer relationship	(0)	(0)	0.0
Slow process of customer services	(0)	(1)	5.0
Other	(0)	(0)	0.0
			100.0
	(8)	(12)	(20)

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 [Table 7-29] Weaknesses of NBFIs over DMBs (Q-16 of NBFIs)

First choice	ITCs	MSFCs	CCs
Narrow range of products permitted	(2)	37.9	16.7
Inferior profitability	(0)	3.4	11.9
Narrow customer base	(0)	10.3	28.6
Restricted geographic coverage	(3)	27.6	26.2
Inferior technology adopted	(0)	13.8	11.9
Other	(0)	6.9(*)	4.8(#)
		100.0	100.0
	(5)	(29)	(42)

(*) = Lack of expert, (#) = Inferior atmosphere

As they were asked to choose two answers, NBFIs (ITCs, MSFCs and CCs)

indicated more or less the same trends of their main weakness against DMBs in HSM by emphasizing their restricted geographic coverage and the narrow range of products permitted¹² as shown in appendix 7-28.

It seems that many of DMBs are more concerned about their inferior coverage of branch networks, inferior atmosphere, narrow customer base and relaxed customer relationship and others, as their weaknesses against other DMBs in the market. However, against NBFIs in HSM, they are concerned about their inferior profitability, the excessive management interference by regulatory authorities, the relaxed customer relationship, and their slow customer services as their weaknesses. On the other hand, as their weaknesses against DMBs, many of NBFIs are more concerned about their restricted geographic coverage and narrow range of products permitted.

7.14. THE MAIN COMPETITORS

As the main competitor in the market, 11 out of 12 NBBs picked up other NBBs, and 1 out of 12 NBBs picked up ITCs, as shown in table 7-30. Asked to choose two main competitors in the market, NBBs picked up other NBBs (45.8 %), ITCs (33.3 %), LBs (8.3 %), CCs (8.3 %) and MSFCs (4.2 %) as shown in appendix 7-28. On the other hand, as their main competitor, LBs indicated NBBs (4 in 8), CCs (2 in 8), ITCs (1 in 8) and MSFCs (1 in 8) as shown in table 7-30. As they were asked to choose two main competitors, LBs picked up ITCs (33.3 %), NBBs (26.7 %), MSFCs (20.0 %), CCs (13.3 %) and other LBs (6.7 %) as shown in appendix

¹² : Along with these, CCs emphasized their narrow customer bases.

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[Table 7-30] Main Competitors of FIS-HSM (Q-19 of DMBs, Q-17 of NBFIs)						
First choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs

NBBs (NCBs and SPBs)	(4)	(11)	75.0	(2)	10.3	7.1
LBs	(0)	(0)	0.0	(0)	3.4	7.1
ITCs	(1)	(1)	10.0	(3)	69.0	38.1
MSFCs	(1)	(0)	5.0	(0)	17.2	33.3
CCs	(2)	(0)	10.0	(0)	0.0	14.3
Other FIS-HSM	(0)	(0)	0.0	(0)	0.0	0.0

			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)
=====						

Therefore, it seems that many of DMBs do not seriously regard NBFIs in HSM as their competitors, even though NBFIs continuously increased their market share in HSM from 35.8 percent in 1983 to 43.8 percent in 1989 as shown in the summary part of chapter four.

As their main competitor in HSM, 3 of 5 ITCs picked up other ITCs, and 2 of 5 ITCs picked up NBBs as shown in table 7-30. Asked to choose their two main competitors, ITCs picked up other ITCs (44.4 %), NBBs (33.3 %), LBs (11.1 %) and MSFCs (11.1 %) as shown in appendix 7-29. As their main competitor, MSFCs picked up ITCs (69.0 %), other MSFCs (17.2 %), NBBs (10.3 %) and LBs (3.4 %) as shown in table 7-30. As they were asked to choose two main competitors in the market, MSFCs picked up ITCs (41.1 %), NBBs (21.4 %), other MSFCs (21.4 %), LBs (12.5 %) and CCs (3.6 %) as shown in appendix 7-29. As their main competitor, CCs picked up ITCs (38.1 %), MSFCs (33.3 %), other CCs (14.3 %), NBBs (7.1 %) and LBs (7.1 %) as shown in table 7-30. Asked to choose their two main competitors, CCs picked up MSFCs (39.5 %), ITCs (25.9 %), NBBs (14.8 %), LBs (9.9 %) and other CCs (9.9 %).

Here, the interesting finding is a great number of FIs-HSM pointed out ITCs and NBBs as their main competitors in HSM.

7.15. UNDERSTANDING OF SAVINGS PURPOSES OF HOUSEHOLDS

Asked to express their understanding about the savings purposes of household customers, many of FIs-HSM picked up children's education (3 NBBs, 2 LBs, 1 ITCs, 24.1 % of MSFCs and 28.6 % of CCs), the purchase of a house or real estate (3 NBBs, 2 LBs, 1 ITCs, 20.7 % of MSFCs and 23.8 % of CCs), and others, as shown in table 7-31. Asked to choose two answers about their understanding of household savings, DMBs said to buy a house or real estate (22.5 %), to ensure elderly life (20.0 %), to educate children (17.5 %), to buy household goods (12.5 %), to increase wealth (12.5 %), to prepare future uncertainty (10.0 %) and others (5.0 %) as shown in appendix 7-30.

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 [Table 7-31] Understanding of Savings Purposes of Households by
 FIs-HSM (Q-20 of DMBs, Q-18 of NBFIs)
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First choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Secure future uncertainty	(1)	(1)	10.0	(1)	13.8	9.5
Children's education	(2)	(3)	25.0	(1)	24.1	28.6
Ensure elderly life	(1)	(1)	10.0	(1)	17.2	14.3
Buy a house or real estate	(2)	(3)	25.0	(1)	20.7	23.8
Buy household goods	(1)	(2)	15.0	(0)	10.3	7.1
Increase household wealth	(1)	(2)	15.0	(1)	13.8	16.7
Others	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

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It seems that many of FIs-HSM are well-aware of the savings purposes of their household customers by indicating the purchase of a house or real estate and

the education of children, compared with the savings purposes by households as explained in the section 7.1 of this chapter. Here, the important thing to be remembered by FIs-HSM is that they have to capitalize their understanding about the financial needs of household customers on satisfying household customers.

7.16. THE ATTRIBUTES FOR IMPROVING COMPETITIVE POSITIONS

In order to improve competitive position(s) in HSM by attracting and sustaining more household customers in their premises, FIs-HSM can adopt and exercise the attribute(s) shown in table 7-32. From nine of the attributes provided, a great number of FIs-HSM pointed out the convenient location (10 NBBs, 6 LBs, 2 ITCs, 51.7 % of MSFCs and 52.4 % of CCs) as the main method to improve their competitive position in the market.

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[Table 7-32] The Methods Improving Competitive Position(s) in HSM
(Q-21 of DMBs, Q-19 of NBFIs)
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First choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Speed of process	(0)	(0)	0.0	(0)	10.3	4.8
Coverage of branch networks	(0)	(0)	0.0	(0)	0.0	4.8
Atmosphere of FIs-HSM	(0)	(0)	0.0	(1)	13.8	7.1
Reputation of trust/safety	(1)	(1)	10.0	(1)	17.2	11.9
Friendly customer services	(0)	(1)	5.0	(0)	3.4	14.3
Wide range of products	(0)	(0)	0.0	(1)	3.4	0.0
Household loans on savings	(0)	(0)	0.0	(0)	0.0	0.0
Profitability	(1)	(0)	5.0	(0)	0.0	4.8
Convenient location	(6)	(10)	80.0	(2)	51.7	52.4
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

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As FIs-HSM were asked to choose three important attributes, NBBs picked up convenient location (33.3 %), higher profitability (11.1 %), friendly customer

services (11.1 %), wide range of products (11.1 %) and others as shown in appendix 7-31. LBs emphasized convenient location (25.0 %), friendly customer services (20.8 %), providing household loans related to savings which household customers had (20.8 %), higher profitability (12.5 %) and others. ITCs indicated wide ranges of products (26.7 %), the convenient location (20.0 %) and others. A large portion of MSFCs and CCs referred to convenient location and friendly customer services.

It can explain how importantly many of FIs-HSM have considered the location of their premises, and friendly customer services of their personnel, as the attributes giving them competitive advantages in HSM.

7.17. THE PROBLEMS INDUCING HOUSEHOLDS TO CHANGE FIs-HSM

As FIs-HSM were asked to assess the circumstance in which household customers may want to change FIs-HSM they deal with (See table 7-33), NBBs assessed the circumstance whereby their customers perceive them as the providers of old-fashioned products (4 NBBs), of deteriorated customer services (3 NBBs), of slow deposit-taking and withdrawal process (2 NBBs), of inferior profitability (2 NBBs) and others. LBs assessed the circumstance whereby their customers perceive them as the providers of deteriorating customer services (3 LBs), old-fashioned products (2 LBs) and others.

NBFIs emphasized the problem of their household customers perceiving them as the providers of old-fashioned products along with deteriorated customer services and inferior profitability, as the main triggers of the change of FIs-HSM.

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[Table 7-33] Awareness of The Problems Inducing Households to Change
FIs-HSM (Q-22 of DMBs, Q-20 of NBFIs)
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First choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Slow speed of process	(1)	(2)	15.0	(1)	10.3	14.3
Inconvenient location	(1)	(1)	10.0	(0)	6.9	11.9
Deteriorated atmosphere	(0)	(0)	0.0	(0)	0.0	0.0
Deteriorated trust/safety	(0)	(0)	0.0	(0)	0.0	0.0
Providing old-fashioned prod.	(2)	(4)	30.0	(2)	41.4	33.3
Inferior profitability	(1)	(2)	15.0	(0)	24.1	14.3
Deteriorated customer service	(3)	(3)	30.0	(2)	17.2	26.2
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

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Asked to choose three important circumstances which can trigger household customers to change FIs-HSM, many of DMBs (as well as NBFIs in HSM) picked up the circumstances that households perceive FIs-HSM as the providers of inferior profitability, deteriorated customer services, old-fashioned products and others, as shown in appendix 7-32.

7.18. REQUIREMENT FOR THE FUTURE DEVELOPMENT OF FIs-HSM

As the main requirement for the future development (See table 7-34), NBBs emphasized the need to achieve management autonomy from the regulatory authorities (7 NBBs), to develop and diversify the product ranges (3 NBBs) and others. LBs picked up the following four aspects as the main requirements : the freedom from branch regulation (2 LBs), enlarging and up-date technology used (2 LBs), sustaining experts (2 LBs), and the achievement of management autonomy (2 LBs).

ITCs emphasized the need to sustain experts (2 ITCs), to develop/diversify

product ranges (2 ITCs), and to achieve enlarged management autonomy (1 ITCs). However, many of MSFCs and CCs stressed the need to achieve freedom from branch regulation, and to develop/diversify the product ranges.

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[Table 7-34] Requirements for The Future Development of FIS-HSM
(Q-23 of DMBs, Q-21 of NBFIs)
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First choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Enlarge customer base	(0)	(0)	0.0	(0)	3.4	5.0
Recruit/train/sustain expert	(2)	(0)	10.0	(2)	6.9	10.0
Enlarge/up date technology	(2)	(0)	10.0	(0)	0.0	7.5
Develop/diversify products	(0)	(3)	15.0	(2)	34.5	22.5
Free from branch regulation	(2)	(1)	15.0	(0)	27.6	40.0
Free from interest rate regulat.	(0)	(1)	5.0	(0)	6.9	10.0
Achieve management autonomy	(2)	(7)	45.0	(1)	20.7	5.0
Other	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(40)

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Asked to choose three important aspects for future developments as shown in appendix 7-33, DMBs emphasized the achievement of management autonomy from regulatory authorities (25.0 %), the development and/or diversification of product ranges (23.3 %), the enlargement of technology adopted (16.7 %), freedom from branch regulation (15.0 %), relaxation of interest rates (8.3 %), recruitment, training and sustaining of expert (6.7 %), and the enlargement of customer bases (5.0 %). ITCs emphasized the need to enlarge their customer base, to develop and diversify product ranges, to free the opening of branches and others. MSFCs and CCs stressed the need to free from themselves branch regulation, to develop and diversify their product ranges and others.

To sum up, as the requirements for their future development, many DMBs emphasize the need to achieve enlarged management autonomy, and to develop products. However, many NBFIs emphasize the need to develop products, and to

achieve freedom from branch regulations imposed on them.

7.19. CONSIDERATIONS ON GRANTING HOUSEHOLD LOANS¹³

As their main considerations when granting household loans, NBBs and LBs emphasized the borrower's personal savings with them as collateral (7 NBBs and 3 LBs), the borrower's credibility (3 NBBs and 3 LBs) and others, as shown in table 7-35. MSFCs picked up the borrower's real estate as collateral (34.5 %), the borrower's personal savings as collateral (20.7 %), the credibility of the borrower (20.7 %) and others. CCs emphasized the borrower's credibility (34.1 %), the borrower's personal savings as collateral (24.4 %), occupation of the borrower (14.6 %) and others.

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 [Table 7-35] Considerations on Granting Household Loans by FIs-HSM
 (Q-24 of DMBs, Q-22 of MSFCs/CCs)

First choice	LBs	NBBs	DMBs	MSFCs	CCs
Real estate as collateral	(1)	(1)	10.0	34.5	12.2
Personal savings as collateral	(3)	(7)	50.0	20.7	24.4
Credibility of borrower	(3)	(3)	30.0	20.7	34.1
Personal relationship	(0)	(0)	0.0	6.9	7.3
Occupation of borrower	(1)	(1)	10.0	3.4	14.6
Suretyship of borrower	(0)	(0)	0.0	13.8	7.3
Other	(0)	(0)	0.0	0.0	0.0
			100.0	100.0	100.0
	(8)	(12)	(20)	(29)	(41)

*. ITCs are not allowed to grant personal loans.
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Asked to choose two important considerations, DMBs pointed out the

¹³ : ITCs are not allowed to deal with household loans.

borrower's personal savings as collateral (35.9 %), the borrower's real estate as collateral (23.1 %), the credibility of the borrower (23.1 %) and others, as shown in appendix 7-34. MSFCs emphasized the borrower's real estate as collateral (30.2 %), the borrower's credibility (28.3 %), the borrower's suretyship (15.1 %), borrower's personal savings as collateral (13.2 %) and others. CCs picked up the borrower's real estate as collateral (22.2 %), the borrower's credibility (22.2 %), the borrower's personal savings as collateral (19.8 %) and others.

As shown above, on granting household loans, many DMBs - as well as NBFIs - tend to be more concerned about the borrower's personal savings with them as collateral and the borrower's real estate as collateral, along with the borrower's credibility.

***** CHAPTER EIGHT *****

GENERALIZATION OF THE RESEARCH FINDINGS

This chapter generalizes the research findings drawn from the surveys of FIs-HSM and households in order to apply the research findings to the formulation of differentiation strategies for DMBs. Therefore, this generalization is concentrated on the aspects which DMBs can use to formulate differentiation strategies in order to achieve competitive advantages in the market.

8.1. OVERVIEW OF HOUSEHOLDS AS CUSTOMERS OF FIs-HSM

Almost all Korean households have some forms of savings with either FIs-HSM or others, such as direct investment in shares and "Kye". They are more likely to save for the purchase of a house (or real estate) and the education of children. Their strong tendency to save for the education of children can be explained by the three main factors : (a) their cultural background characterized as Confucian values which emphasize the virtues of work, thrift, education and others, (b) the social acknowledgement/requirement of higher educational level on the search for jobs, and the wide gap of wage levels determined by educational attainment (eg. high school graduates vs university graduates), and (c) the very expensive educational costs of higher education.

More than three quarters of Korean households save regularly. Moreover,

about a half of them saves a fixed amount regularly. Of those households who save, eighty eight percent of them put their savings in FIs-HSM, and twelve percent of them put their savings in either direct investment in shares or "Kye". About two third of households use "Kye" because they want to get household loans easily through "Kye", because they expect to have a high potential profitability from "Kye", or because they are unfamiliar with FIs-HSM, other than to keep personal relationship with the members of "Kye". Therefore, dependent on their efforts in the market, FIs-HSM can attract about two third of those households who use "Kye" into their premises.

Slightly outnumbered households, who deal mainly with FIs-HSM, put their savings with DMBs other than NBFIs in HSM. However, the total amount deposit-received by NBFIs from the personal sector has been dramatically increased. In 1990, the total amount deposit-received by NBFIs was larger than that by DMBs. This can be explained by the fact that those who save a large sum of money may go to NBFIs, but a large number of those who save a small amount of money may go to DMBs. In turn, this aspect can bring out a higher operating cost of DMBs, and reduce their competitiveness in the market, compared with NBFIs.

About three quarters of those who save mainly in FIs-HSM have dealt with more than two FIs-HSM, either DMBs or NBFIs. As Korean households start to save, many of them are more likely to decide on a FIs-HSM in advance, and then choose a savings account. It seems that FIs-HSM can directly attract those households to use their savings products, if they can deliver their name/image and characters into households effectively and properly, without real major concentrated efforts promoting their products.

About a half of those who saves in FIs-HSM tends to have two savings accounts. Moreover, about thirty percent of them tend to have more than three savings accounts with FIs-HSM. Therefore, it seems that, at first glance, FIs-HSM have been operating in a saturated market.

On opening savings account, Korean households are more likely to be concerned about the safety of their savings, the chance to get household loans related to savings account, a high profitability, and others. Accordingly, many of them tend to prefer those savings accounts (eg. mutual instalment deposit, instalment savings deposit, workman's property formation deposit) which have the terms of regular fixed amount savings - but have a high profitability, as well as the preferential tax treatment attached in interest earning - and the possibility to get household loans, if needed.

As Korean households are forced to borrow a substantial amount of money, they tend to consider the simple and fast ways of borrowing, the possibility of getting household loans in connection with the savings account they had with FIs-HSM, good interest rates and others, as they search a potential lender. This tendency of getting household loans through their savings account is more likely to influence households' choice on the certain savings accounts (eg. instalment savings deposit, mutual instalment deposit, workman's property formation deposit) which can automatically grant household loans, if required.

About a half of them prefers to ask DMBs, two fifths of them prefer to ask either MSFCs or CCs, and one in eight prefers to ask private lenders or friends. Those who tend to ask private lenders or friends for household loans tend to consider such attributes as : simple and fast ways of borrowing, and no requirement

of collateral over household loans. Therefore, FIs-HSM can attract those who ask private lenders or friends for household loans, if they can provide household loans in a simple and fast way, but with a proper evaluation process on granting household loans.

With respect to the methods of payment settlement for shopping, about three quarters of Korean households tend to prefer a cash settlement because a cash payment is easy to pay, and allows easy balance control. Therefore, if FIs-HSM can properly change the attitudes of cash-oriented Korean households to use other methods (eg. credit card, household check, direct debit) in connection with savings account(s), they may find some extra room for further expansion of their operations in HSM.

In general, FIs-HSM are well aware of the savings purposes of household customers in HSM. Korean households are more likely to save mainly for the purchase of a house or real estate, the education of children, the security of their future uncertainty and others.

As they become older, their savings purpose shifts from the purchase of a house or real estate to the education of children, the security of an elderly life and the accumulation of wealth. As they become richer, their savings purpose shifts from the purchase of a house or real estate, the purchase of household goods and the accumulation of wealth, to the education of children and security in old age.

Korean husbands, as household budget planners, are more likely to save for the purchase of household goods (eg. automobile), but Korean housewives, as household budget planners, are more likely to save for the future uncertainty and security for elderly life. However, the important finding is Korean housewives have

a major role in matters pertaining to household budget and household savings, although they consult with their husbands, to some degree.

In order to effectively attract household customers into their premises, FIs-HSM have to emphasize the possibility of achieving the basic purposes of household savings. Therefore, FIs-HSM have to deliver their savings (and related) products with the implied messages such as : (a) the achievement of the dream to become a house-owner, (b) the successful stories of children obtaining education through parents' devotion, and (c) the automatic access to household loans in connection with savings accounts in emergency situations which arise in households. Besides, FIs-HSM have to encourage word-of-mouth communication among the general public through funny and memorable ways by advertising in newspapers and magazines, along with other methods.

If Koreans have an unforeseen windfall, many of them are more likely to prefer to buy a house or real estate and to invest in shares directly, instead of putting the windfall in FIs-HSM. In connection with the savings purposes of Korean households, it shows that they are strongly likely to possess a secure family living place, and to increase household wealth through speculation on houses, real estate and shares in a period of the rapid increase in the price of houses and real estate, and of the rapid expansion of securities market.

Many Korean households generally seem to have an unfavourable opinion about the trend of the instalment of CDs/ATMs by FIs-HSM. They think that the machines installed may transfer customer services provided by the counter personnel of FIs-HSM to the machines mainly within the premises of FIs-HSM. Additionally, they regard the transaction with the machines as un-reliable mainly

due to the frequent break-down of the machines.

About the possible change in the operation scope of FIs-HSM, about a half of respondents shows their continuous loyalty to the present FIs-HSM which they use, regardless of any change to occur. However, households led by professionals and self-employed workers, compared with others in different occupation groups, are less likely to keep on using the present FIs-HSM dealt with, and they tend to change to other FIs-HSM providing a various and wide range of products.

Generally, among those who wish to change their FIs-HSM, about 57 percent of them want to change to other FIs-HSM which provide a various/wide product range.

8.2. OVERVIEW OF THE OPERATIONS OF FIs-HSM

About two thirds of DMBs (NCBs, SPBs and LBs) conduct customer research. They are mainly for evaluating the preferences/attitudes of households, and for measuring households' awareness of their products. A third of DMBs which does not conduct customer research regards customer research as being unnecessary, too expensive, and not easy to conduct because of the lack of expertise. About four fifths of NBFIs (ITCs, MSFCs and CCs) do not conduct customer research.

The majority of DMBs, as well as NBFIs, do not segment properly their household customers into sub-groups based on their unique-shared characteristics, although different customers show different attitudes and preferences in the matters of savings. Therefore, it seems that FIs-HSM do not recognize properly the specific needs of a certain group of customers, and thus they can not exercise

differentiated strategies properly to different customers groups in the market in order to attract customers more effectively.

Owing to the artificial demarcation imposed by regulations, there is some difference in the range of savings (and related) products among different groups of FIs-HSM (eg. NCBs, ITCs, MSFCs). However, almost all FIs-HSM within the same group of FIs-HSM provide households with almost the same range of savings (and related) products. The reasons are mainly (a) because the regulations imposed over the operations of FIs-HSM are very strict at present, and almost all of FIs-HSM of all groups of FIs-HSM try to provide almost all savings (and related) products permitted by their regulations imposed, (b) because new products developed are subject to the consent from the regulatory authorities before being launched on the market, and (c) because new products, even though developed, can be easily copied by others in the absence of a patent. Besides, a great number of FIs-HSM have felt that they are restricted to engage freely in savings (and related) products in HSM, so that they show a strong preference to deal with product(s) of other FIs-HSM which may show potential profitability, if possible.

Additionally, there is not much difference in interest payments/charges among FIs-HSM within the same group, but some difference among FIs-HSM belonged to different groups of FIs-HSM because of the artificial differentiation imposed by their regulations, and because about two thirds of FIs-HSM except ITCs have decided their own interest rates absolutely based on the maximum guideline given by their regulatory authorities.

Because the discretion of FIs-HSM about interest rates has been strictly restricted by the authorities for a long period, FIs-HSM have had a passive attitude

on the decision of interest rates in HSM, so that more than a half of them shows an anxiety over the possible liberalization of interest rates fearing that such liberalization may increase operating costs and reduce profits.

As a result of the facts aforementioned, almost all FIs-HSM belonging to the same group have provided almost the same savings (and related) products with almost the same level of interest rates, and of commission in HSM. Therefore, all FIs-HSM within the same group can be viewed to household customers as providing similar financial products in different locations and with different names in the market.

With respect to their inferior positions in the distribution channels, compared with other FIs-HSM, the great majority of FIs-HSM, both DMBs and NBFIs, want to open and sustain branches which are permitted to have, even though the market is viewed as the saturated ones.

About two thirds of DMBs have a positive attitude about the installation of CDs/ATMs. They agree that the installation of the machines can lessen the workload of their counter personnel, and thus enhance a chance to provide better customer services by their counter personnel, and ultimately this improved service can provide them with competitive advantages in the market over those FIs-HSM which do not have CDs/ATMs. On the other hand, two third of both MSFCs and CCs express the opinion that they have competitive disadvantages against DMBs in HSM because they do not have CDs/ATMs.

However, the main consideration points in connection with the instalment of CDs/ATMs by Korean FIs-HSM are as follows. First, almost all of the machines are installed inside the premises of FIs-HSM so that customers can not use CDs/ATMs

freely after business hours of FIs-HSM. Second, the break-down of CDs/ATMs is very frequent. Therefore, customers can not easily acknowledge the advantages provided by CDs/ATMs in the market. On the point about the installation of CDs/ATMs by investing a huge amount of money, those FIs-HSM (eg. NCBs, SPBs and LBs) which install CDs/ATMs can not enjoy competitive advantages fully in the market over other FIs-HSM (eg. MSFCs and CCs) which do not have the machines.

The promotional objective of a great majority of FIs-HSM is concentrated on the enhancement of their corporate name/image. For the promotion, however, seven in twelve NBBs (combination of NCBs and SPBs) use mainly pamphlets, signboard or outside advertisements, and two in twelve NBBs use newspaper or magazine advertisements. On the other hand, a half of LBs emphasizes personal contact with customers.

On promoting, however, the important thing to be considered by FIs-HSM is that households are more likely to obtain the financial information about FIs-HSM and/or savings (and related) products from personal sources (eg. acquaintances and members of family), and newspaper and/or magazine advertisements, other than from television and radio advertisements and/or pamphlets. About seven in ten households regard the financial information which they have as being useful, but two thirds of them regard it as being insufficient. Therefore, FIs-HSM are required to provide more sufficient and useful financial information about themselves and/or their products for household customers by understanding of the requirements of household customers properly through conducting the proper customer research in order to communicate effectively with customers.

On granting household loans, DMBs are more likely to consider the savings

account of a borrower as a collateral, and the credibility of a borrower. MSFCs tend to be more concerned about the real estate and savings account of a borrower, as the collateral, and the credibility of a borrower. CCs are more likely to be concerned about the credibility, savings account of borrower as a collateral, occupation of borrower. Like the facts emphasized by FIs-HSM, the savings account, as a collateral of household loans, is more likely to be preferred by households. On seeking household loans, households are more concerned about simple and fast ways of borrowing, the possibility of getting household loans in connection with their savings accounts with FIs-HSM and others, as mentioned earlier in this chapter.

Every FIs-HSM has its unique strengths and weaknesses in the market it serves, like any other firms. Coult (1992) pointed out that one good way to examine the effects of competition on the banks is to consider their strengths and weaknesses, and what steps they might take in order to combat effectively. In general, many of DMBs appraise the well-located sites of their branches, along with a good atmosphere, as their main strength over other banks in HSM. On the other hand, many DMBs assess their inferior atmosphere, inferior coverage of their branch network (especially by LBs), narrow customer base, and relaxed customer relationship, as their main weakness over other banks in HSM.

It seems that many of DMBs tend to be more concerned about the coverage of branch network, the internal and external atmosphere, and the bases of/relationships with household customers in order to compete with other banks in HSM.

As their main strength over NBFIs in HSM, many of NBBs pick up better

degree of credibility and wide range of savings (and related) products for households. Many LBs appraise wide customer bases, and wide coverage of their branches. However, as their main weakness over NBFIs in HSM, nearly all of the DMBs assess their inferior profitability, along with the excessive management interference by their regulatory authorities, and the relaxed customer relationship.

It seems that many of DMBs are likely to be more concerned about their credibility in the market, the coverage of branch network, and the wide range of savings (and related) products as their strength, and the profitability, and their management interference as their weakness, on competing with NBFIs in the market.

As for their strengths over DMBs in the market, ITCs value their higher profitability, and their unique products (eg. beneficial certificates, security investment savings) in HSM. MSFCs value their well-located place, better atmosphere, strong and better customer relationship. CCs value their higher profitability, better atmosphere, and better customer relationships. ITCs and MSFCs generally express dissatisfaction with their restricted geographic coverage, and narrow range of products which they are permitted to deal with, as their main weakness in comparison with those of DMBs. CCs consider their narrow customer bases, and the restricted geographic coverage, as major disadvantages.

As the main requirement for the future development, a great majority of NBBs (NCBs and SPBs) emphasize the achievement of management autonomy, along with the development and diversification of product ranges providing. Many of LBs require the achievement of management autonomy and of freedom in branch policy, the enlarged and up-to-date technology used, and recruitment, training and

sustaining experts, evenly. In line with these, more LBs (as well as MSFCs and CCs) than NBBs emphasize the training of newly employed personnel before assigning them a task. On the other hand, many of MSFCs and CCs emphasize achieving freedom from branch regulation, and developing and diversifying the product ranges.

About further development, DMBs tend to blame strongly the excessive interference of the regulatory authorities for the main hindrance from launching new products, setting interest rates (profitability given to customers), and expanding coverage for their branch network.

Even though about a half of those households who puts their savings in FIs-HSM deals mainly with one of NBFIs (ITCs, MSFCs or CCs), only a handful of NBBs considers ITCs as their prime competitors, and a great majority of NBBs consider other NBBs as their prime competitors in the market. However, a half of LBs regards CCs, ITCs and MSFCs as their main competitors, and the other half of them regards NBBs as their prime competitors in the market. It seems that many of DMBs do not regard NBFIs as their serious competitors, even though NBFIs have continuously increased their market share in HSM.

An interesting finding is that a great number of FIs-HSM in all of groups pointed out ITCs and NBBs as their main competitors. It can be explained by the following facts. First, the profitability - based on the results of ITCs' investment of customers' funds in the securities market - of ITCs has been higher than the fixed interest rates of other groups of FIs-HSM mainly because of the booming of Korean securities market in recent years. Second, NBBs operate with a large number of nation-wide branch networks so that NBBs meet and compete with all

groups of FIs-HSM in the marketplace.

8.3. CROSS-ANALYSES OF MAIN ATTRIBUTES DIFFERENTIATING FIs-HSM

On choosing FIs-HSM for their savings, in general, many Korean households tend to regard friendly customer services provided by the personnel of FIs-HSM, the internal and external atmosphere of FIs-HSM, the possibility of getting household loans related to their savings account, and others, as the important attributes.

The cross-analyses of those attributes, which can affect the choice of households in HSM, with demographic profiles of respondents show the following things. First, the speed of deposit-taking and withdrawal process of FIs-HSM tends to be more concerned by those who are young, are educated in high school levels, and have between 1.0 mn and 1.5 mn Won of monthly household income. Therefore those DMBs which try to attract younger households having a low household income at present (but having a potential high household income later on) have to emphasize building customer loyalty by providing speed of deposit-taking and withdrawal process. Second, the internal and external atmosphere of FIs-HSM is more likely to be concerned by those who are more than 50 years old, and have between 0.5 mn and 1.0 mn Won of monthly household income. Third, friendly customer services provided is likely to be considered an important attribute by those who are highly-educated people. However, the more household income households earn, the less likely friendly customer services provided by FIs-HSM is valued. Fourth, wide range of savings (and related) products of FIs-HSM for households is less likely to be valued greatly by those who are highly-educated ones.

Fifth, the possibility of getting household loans in connection with their savings account with FIs-HSM is more likely to be considered importantly by those who are living in medium/small cities and rural areas, and by those who have between 0.5 mn and 2.0 mn Won of monthly household income. Sixth, the profitability provided by FIs-HSM is more likely to be valued greatly by those who are under 39 years old. However, it is less likely to be considered by those who are between 40 and 49 years old.

Those who are more concerned about the speed of deposit-taking and withdrawal process of FIs-HSM, as an important attribute when choosing FIs-HSM, are also more likely to be concerned about the convenient location of FIs-HSM as important one, correlatively with some degree. It is a natural result that those who are strongly concerned about the speed of deposit-taking and withdrawal process of FIs-HSM are more keen about the location of FIs-HSM for dealing with.

Those who are more concerned about the friendly customer services of FIs-HSM, and who are view it as an important attribute when choosing FIs-HSM, are more likely to be concerned about the convenient location of FIs-HSM as important one, correlatively with some degree.

The attributes affecting households' choices of FIs-HSM and the attributes adopted by FIs-HSM in order to increase their competitiveness in the market are summarized in table 8-1. Many of all groups of FIs-HSM are likely to emphasize the need to locate in convenient sites for households, as an the important attribute to attract more households into their premises. However, Korean households are generally concerned about friendly customer services and the internal/external atmosphere of FIs-HSM as important attributes when choosing a FIs-HSM, as

shown in table 8-1.

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 [Table 8-1] Attributes Affecting on Households' Choice of FIs-HSM and Used by FIs-HSM to Increase Their Competitiveness
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	AFFECTING ON HOUSEHOLDS' CHOICE	ADOPTED BY FIs-HSM (of 100 %)
NCBs	Friendly customer services (1)	Convenient location (33.3)
	Reputation of trust and safety (2)	High profitability (11.1)
	Internal/external atmosphere (3)	Friendly customer services (11.1)
	Convenient location (4)	Range of savings products (11.1)
SPBs		Coverage of branch network (8.3)
	Friendly customer services (1)	Internal/external atmosphere (8.3)
	Possibility to get household loan (2)	Speed of deposit-taking and (5.6)
	Internal/external atmosphere (3)	Reputation of trust/safety (5.6)
	Convenient location (4)	Household loans on savings (5.6)
LBs	Reputation of trust and safety (4)	
	Possibility to get household loan (1)	Convenient location (25.0)
	Friendly customer services (2)	Friendly customer services (20.8)
	Speed of deposit-taking/withdraw (2)	Household loans on savings (20.8)
	Internal/external atmosphere (4)	High profitability (12.5)
ITCs		Coverage of branch network (8.3)
		Reputation of trust/safety (8.3)
		Internal/external atmosphere (4.2)
	Internal/external atmosphere (1)	Range of savings products (26.7)
	Friendly customer services (2)	Convenient location (20.0)
	Convenient location (3)	Internal/external atmosphere (13.3)
MSFCs	Speed of deposit-taking/withdraw (4)	Reputation of trust/safety (13.3)
		High profitability (13.3)
	Friendly customer services (1)	Convenient location (20.0)
	Possibility to get household loan (2)	Friendly customer services (14.1)
CCs	Reputation of trust and safety (3)	Internal/external atmosphere (12.9)
	Internal/external atmosphere (4)	Household loans on savings (11.8)
	Friendly customer services (1)	Convenient location (20.5)
	Internal/external atmosphere (2)	Friendly customer services (18.0)
	Convenient location (3)	Coverage of branch network (11.5)
	Possibility to get household loan (4)	Household loans on savings (10.7)
		High profitability (10.7)

*. The figures in the left-hand side indicate the ranking of the higher scores of individual group of FIs-HSM in table 7-10.
 *. The figures in the right-hand side represent the responses of FIs-HSM as they are allowed to choose up to three important attributes used in appendix 7-31.
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Here are some discrepancies between those attributes which households consider importantly when choosing on FIs-HSM, and the attributes adopted by FIs-HSM in order to attract more households in order to increase their competitiveness in HSM. In these circumstances, all DMBs have to try to fulfil their household customers' expectations about choice in the market by, at least, providing all of

attributes shown in the left hand side of the attributes in table 8-1, so as to ensure their current customers. Thereafter, DMBs are required to try hard to provide additional attributes which can exceed their household customers' expectations about DMBs, and which are provided by NBFIs.

The three attributes (ie. the possibility to get household loans in an emergency situation in connection with their savings in FIs-HSM, the reputation about trust and safety of FIs-HSM, and the speed of deposit-taking and withdrawal process of FIs-HSM) are commonly emphasized by those who deal with both DMBs and NBFIs, as important attributes on choosing FIs-HSM (See table 8-1 and table 7-10). Those who deal with DMBs are more concerned about the coverage of branch network of FIs-HSM than those who deal with NBFIs. On the other hand, it seems that those who deal with NBFIs are more concerned about friendly customer services, atmosphere of FIs-HSM, convenient location, profitability, and range of savings (and related) products than those who deal with DMBs.

Korean households tend to consider changing FIs-HSM when they perceive (a) the reputation of trust and safety of FIs-HSM they deal with has deteriorated, (b) inconvenience to get access to the FIs-HSM they deal with, (c) a deteriorated atmosphere within FIs-HSM, and so on. However, it seems that they are less likely to change FIs-HSM because of the slow deposit-taking and withdrawal process, even though some FIs-HSM express their anxiety about the slow speed of deposit-taking and withdrawal as a potential trigger of customers' change, along with the inferiority of profitability, the deterioration of customer services, old-fashioned savings (and related) products and others. However, not many of FIs-HSM consider the deterioration of their reputation about trust and safety, and the deterioration

of their atmosphere, as main attributes which make customers change FIs-HSM.

Here, the most important thing to be considered by DMBs is that they should try to build up their differentiated/enhanced image in households' mind through proper enhancement of such attributes as friendly customer services, reputation of trust and safety, and internal/external atmosphere of their premises. In addition, DMBs try to capitalize the other attributes which can affect households' attitudes and expectations, because the products (services) offered by DMBs are mainly intangible and inseparable.

On implementing the attributes in order to create a competitive position in the market by differentiating themselves from their competitors, DMBs have to consider the regulatory environments which can affect and dictate their operations in HSM, and technology adopted.

8.4. GENERAL PREFERENCES OF FIs-HSM BY HOUSEHOLDS

Generally, this research can conclude with the following facts. First, DMBs (as the main deposit place of household savings) are more likely to be preferred by those who are/have :

- either under 40 years old or over 60 years old
- living in either medium/small cities, or rural areas
- educated under high school levels
- either self-employed, or daily workers
- less than 1.5 mn Won of monthly household income

Second, NBFIs (as the main deposit place of household savings) are more likely to be preferred by those who are/have :

- between 40 and 59 years old
- living in Seoul
- either professionals, or salary workers
- more than 1.5 mn Won of monthly household income

Therefore, it can be said that DMBs are preferred by those who are younger or near-retired, living in either medium/small cities or rural areas, less educated, self-employed or daily workers, and/or somewhat poor. On the other hand, NBFIs are preferred by those who are middle aged, are well-educated, are living in bigger cities, are somewhat rich, and/or have a secure job.

***** CHAPTER NINE *****

RESEARCH CONCLUSION

This chapter begins with the overall summary of the exploratory and descriptive studies which are presented from chapter two to chapter five of this research. The verifications of the hypotheses which were constructed to lead this research are then presented. It continues with the conclusions of this research based on the results drawn from the research, centring on the methods of enhancing competitive positions of DMBs through the proper exercises of differentiation strategies in the market they serve. Finally, some limitations of this research are discussed, along with some suggestions for future research.

9.1. INTRODUCTION

It is possible to manage a firm intuitively (and informally), as it is located in the stage of a low degree of complexity based on product, market/operating and environmental complexities. As a firm grows, (a) its operations become more complicated, and the environmental conditions which affect and dictate its operations change rapidly, and (b) its operations are required to be systematically implemented, coordinated and controlled in order, at least, to survive in such circumstances. Therefore, a firm is required to have a proper competitive strategy which can be defined as "the search of a guideline for a firm's actions to keep on its

survival from the changing competitive external conditions, and then to achieve its business purpose by properly deploying its internal capabilities". It can be said, to some extent, that any firm selling its product(s) at a profit can enjoy a competitive advantage from its direct and/or indirect competitors.

Although a firm can develop its competitive strategies based on either the firm itself, its competitors or customers in the market, competitive strategies - paying a balanced attention to the needs and wants of customers, to its capabilities to fulfil customers' needs and wants, and to its competitors' strategic movement, as well as to external conditions - are strongly preferable. Dependent on its capabilities and the market conditions it serves, a firm can fulfil either all (or some) needs of all customers, or all (or some) needs of some customers in the market. However, the market a firm serves is not a static, but evolving one, so that the firm is required to adopt one of the five strategic directions (ie. disinvestment, de-escalation, do-nothing, development and diversification) in the market.

No matter which strategic direction a firm chooses, the firm is required to differentiate itself from others in order to support successfully the implementation of strategic direction selected. The reason is there is a strong possibility that the firm will encounter (a) current competitors adopting the same strategic direction of the firm, and/or (b) new competitors which have already implemented the new strategic direction adopted by the firm. A firm can differentiate itself from others through either the product, or the customer support it offers, or both, as well as through price dimension.

Compared with those firms which produce/sell goods, a bank, like other service firms, will encounter some of different aspects on formulating differentiation

strategies. The main reason is that a bank produces and sells services (as its products) characterized as intangible, inseparable, heterogeneous, perishable and non-owned. Due to the characteristics of its services, customers of a bank can not easily evaluate both the bank and its services delivered in terms of quality, trustworthiness, safety and others, which are generally regarded by customers as some of the important aspects in choosing a bank to deal with.

Therefore, a bank is required to practise the elements of the 7Ps properly and inter-relatively in order to differentiate itself effectively from its competitors and to provide customers with a clear picture of its operations. The reason is because customers of a bank may try to find any clue about the bank and its services not only from the mixture of the conventional 4Ps, but also from (a) all tangible clues and the environment provided by the bank, (b) participants - the personnel of the bank and other customers of the bank - in the service delivery, and (c) the production process of services in which customers can involve and interact with the counter-personnel of the bank.

In general, FIs-HSM of Korea are comprised of DMBs and NBFIs. DMBs comprise NCBs, LBs and SPBs. NBFIs in HSM are ITCs, MSFCs and CCs. NCBs and LBs are subject to the GBA, the BOKA, and the control of the BOK. Six SPBs are subject to each of the specialised bank acts, respectively, as well as the control of the MOF. However, both NCBs and SPBs are more or less equally treated in HSM by their direct regulatory authorities because the MOF controls the BOK through the chairmanship of the Monetary Board, which is a supreme policy-organ of the BOK. LBs are somewhat preferentially treated in the matters of interest payments/charges in HSM.

NBFIs are subject to each of their acts, and the control of the MOF, but they are exempted from the control of the BOK. Compared with DMBs in HSM, NBFIs are preferentially treated by the MOF in order to compensate their inferiority in the market. These are the preferential treatments on interest rates of deposits and lending, interest earnings from their reserve requirement funds, and the enlarged management autonomy. However, the expansion of delivery channels of NBFIs is strictly restricted by their regulatory authorities. By help of the preferential treatment of their operations, and of providing the diversified and specialized savings products, NBFIs increased their proportions in the deposit-received from 35.8 percent in 1983 to 43.8 percent in 1989 in the total deposit-received by financial institutions. Total amounts of deposits received expanded 4.3 times from 27,100 bn Won in 1983 to 117,220 bn Won in 1989.

The level of households' savings can be considered as being determined by both the ability and willingness to save, and by their opportunity to save. The opportunity to save and to accumulate savings (in the form of financial assets) will be dependent on the accessibility of households to formal financial institutions, and on the types of financial instruments which these financial institutions make available.

The general level of household savings, and the opportunity to save will be increased or decreased by the ability of financial institutions to attract and accept household savings through the proper combination of the 7Ps, by the attractiveness and variety of financial products provided by financial institutions in order to attract, and by the easy accessibility of financial institutions by households.

People's willingness to save can be influenced directly by their personalities,

life-style, needs and perception, and indirectly by the surrounding environments such as cultural and social factors, economic situation and government policy, personal financial situations and others. Korean households, as customers of FIs-HSM, are strongly influenced by Confucian values and attitudes which emphasize the virtues of work, thrift, education and others, together with by astrological beliefs. Besides, they have shared the widespread collective attitudes in decision making by emphasizing a group they belong to.

Korean households' ability to save has been increased by virtue of a positive economic situations characterized as a high GNP growth, a low unemployment rate, a high increase in personal disposable income, and the stabilized interest rates, together with the trend of a few children in households. Besides, the demographics of Korea shows a slow growth in population, an ageing population, an increase in those age groups (between 30 and 64) having a strong earning power, and a decline in the dependency ratios. As they become richer, their financial demand has diversified and sophisticated, and they have tried to fulfil their changed financial demand from DMBs, as well as NBFIs, in HSM.

9.2. VERIFICATION OF HYPOTHESES

In this section, the researcher will verify the five hypotheses which were constructed for the props of this research, based on the grand hypothesis of this research.

[HYPOTHESIS ONE] : DMBs are operating in the fully saturated market

conditions of HSM.

To put it briefly, this hypothesis may be accepted as being true, mainly based on the following facts. Almost all Korean households have savings. Eighty-eight percent of those who have savings put their savings mainly in FIs-HSM (either DMBs or NBFIs). Three quarters of those who put their savings in FIs-HSM deal with more than two FIs-HSM¹. About four fifths of those who put their savings in FIs-HSM possess more than two savings accounts². Twelve percent of those who have savings put their savings mainly in either "Kye" or direct investment in shares, other than FIs-HSM. The main reasons of preference of "Kye" are to keep personal relationship with the members of "Kye"³, or to get household loans easily through "Kye" without any paper work.

However, three quarters of Korean households mainly use cash as a means of settlement when shopping. About two thirds of them have decided to use FIs-HSM and savings accounts, without having a sufficient information about FIs-HSM and/or savings (and related) products offered in the market. Only slightly less than a half of them shows a strong loyalty toward the current FIs-HSM they deal with, regardless of any coming changes in the conditions of HSM. Along with the rapid expansion of national economy and a fewer children in households, household income has continuously increased.

¹ : About forty percent of those who put their savings in FIs-HSM deal with more than three FIs-HSM.

² : About thirty percent of those who put their savings in FIs-HSM possess more than three savings accounts.

³ : Because its members are usually consisted of relatives, friends and/or acquaintances.

Therefore, the researcher can reject this hypothesis, and conclude that HSM is not completely saturated, in fact, although it seems superficially that DMBs are operating in a saturated market. The reason are that there are some room for further expansion in the market. First, DMBs can attract a floating cash - mainly as a means of the payment settlement of household shopping - from the public into their premises, if they can introduce a certain savings products which can provide money transaction facilities (eg. direct debit, EFTPOS) along with savings functions for household customers by help of technology adopted. Second, through the adaptation of effective promotion strategies in order to provide customers with sufficient information about their name/character and/or their savings (and related) products, DMBs can reduce customers' anxiety about their choice about FIs-HSM and savings (and related) products, and, in turn, it will increase customers' satisfaction. Third, DMBs can attract a half of those household customers of other FIs-HSM (other DMBs and NBFIs) who does not show a strong loyalty toward the current FIs-HSM dealing with.

[HYPOTHESIS TWO] : Households with different demographic backgrounds (eg. age, income, occupation, education level, resident place) have different attitudes and preferences in HSM.

The results of the analyses of some of variables⁴, which the researcher

⁴ : These are (a) purposes of savings, (b) habit of savings, (c) FIs-HSM dealt mainly with, (d) number of FIs-HSM dealt with, (e) attributes influencing on the choice of FIs-HSM, (f) attributes influencing on the change of FIs-HSM, (g) potential borrowing sources of household loans, (h) opinion about the loyalty of FIs-HSM, and (i) savings account possessed.

analyzed by the demographic profiles of household customers, show that there are some differences among demographic profiles of household customers, as presented earlier in the part one of chapter seven. Therefore, the researcher can accept this hypothesis, and conclude that households with different demographic backgrounds (eg. age, income, occupation, education level, resident place) have different attitudes and preferences in HSM.

[HYPOTHESIS THREE] : DMBs do not seriously consider market conditions of HSM as the first step of building competitive positions in the market.

First, about two third of DMBs conduct market research in HSM, but only a handful of DMBs segment household customers in the market, to a large extent, according to the unique-shared demographic profiles of household customers. Second, without considering market conditions, almost all DMBs decide the range of savings (and related) products and the interest rates paid/charged dependent solely on the guideline given by the regulatory authorities. Therefore, the range of savings (and related) products and the interest rates paid/charged of almost all DMBs are almost the same. However, almost all DMBs have a passive attitude on differentiating themselves in HSM mainly by complaining about the excessive regulations and interference imposed by their regulatory authorities. Third, almost all DMBs want to open and sustain all branches which are permitted to have by their regulatory authorities, without considering market conditions deeply.

Therefore, it seems that DMBs are operating in HSM without any analytical understanding of market conditions and of household customers. As a result, the

researcher can accept this hypothesis, and conclude that DMBs do not consider market conditions of HSM seriously when seeking to pre-occupy the market.

[HYPOTHESIS FOUR] : All DMBs are totally homogenized with each other in their operations in HSM, so they can be seen as the same (but having different names and locations) from the viewpoint of households.

To put it briefly, this hypothesis may be accepted as being true based on the following facts. First, almost all DMBs provide household customers with almost the same range of savings (and related) products with almost the same conditions (eg. terms, interest rates⁵, charges) mainly due to the heavy regulation imposed. Second, they share an on-line network with each other, so customers can withdraw their deposits from any of DMBs branches connected by the on-line network.

However, in the circumstance of almost the same range of undifferentiated products offered by almost all DMBs, customers can evaluate the degree of operations of a bank mainly based on the following attributes⁶ : customer services of the personnel of a bank, the atmosphere of its premises, and the process of deposit-taking and withdrawal.

Therefore, the researcher can reject this hypothesis, and conclude that DMBs are not operated in fully homogeneous market conditions, and that they can differentiate themselves from other DMBs in order to achieve competitive positions

⁵ : Interest rates of LBs are slight higher than those of NCBs and SPBs, because LBs are preferentially treated by the regulatory authorities.

⁶ : These attributes can be controlled by individual DMBs.

in HSM based on their intention/efforts.

[HYPOTHESIS FIVE] : There are not many differences in operations between DMBs and NBFIs in HSM, except artificial demarcations imposed by the regulations for the range of savings (and related) products, interest rates and the number of distribution channels.

It is true to say that the operations of DMBs are totally different from those of NBFIs in terms of the range of savings (and related) products, interest rates and the number of distribution channels. Besides the differences given artificially, DMBs, as well as NBFIs, can create additional differences dependent on their efforts about the following attributes. These are the degree of customer services given by their personnel, the atmosphere of their premises, and the process of deposit-taking and withdrawal.

Therefore, the research can reject this hypothesis, and conclude that there are many differences in the operations between DMBs and NBFIs in HSM over the differences given artificially by the regulations, and that DMBs (or NBFIs) can differentiate themselves from NBFIs (or DMBs) in order to obtain and sustain competitive positions in the market.

As the result of the verifications of the five hypotheses, the researcher can reject the grand hypothesis of this research, and conclude that "DMBs can achieve competitive advantages effectively in HSM they serve by differentiating themselves from their competitors, either other DMBs or NBFIs in HSM" dependent on their intention/efforts, even though they are operating in a heavily regulated market.

9.3. CONCLUSIONS OF THE RESEARCH

The verifications of the grand hypothesis and its five sub-hypotheses show that the market DMBs are operating in is not fully saturated, that household customers with different demographic backgrounds have different attitudes and preferences in HSM, and that individual DMBs can sustain competitive advantages in HSM through exercising differentiation strategies properly. In this section, therefore, the researcher tries to provide DMBs with the recommendations which can be used to sustain competitive advantages by differentiating themselves from their competitors in HSM, based on the research conducted by the researcher.

By differentiating itself from others, a bank can protect its current customers from the induction of its competitors, attract the customers of competitors, and attract non-customers of the market to become its customers. In addition, the bank can guarantee its continuous operations in the market, maximize its market share, and keep the adequate level of profits and of the rate of return.

On constructing the differentiation strategies, a bank should determine which markets and customer groups it wants to serve, identify the specified needs and wants of markets and customer groups it want to serves, clarify how it delivers its services to meet the needs, and then decide how it differentiate itself from its competitors⁷. Exercising the differentiation strategies, DMBs will encounter either controllable attributes, semi-controllable attributes, and non-controllable attributes

⁷ : At this point, senior management must determine if the basic future commitment is to expand the bank into new customer segments and demographics that will require significantly different products and services to address the needs of an expanded scope of customer segments effectively. The alternative is to position the basic future commitment to expand the bank's reach into new geographic areas, regionally and nationally, while stressing existing products, honing those products, and increasing products and sales knowledge of its personnel (Metzger 1990).

in the market they serve, mainly due to their internal capabilities and the external environments.

9.3.1. RECOMMENDATIONS FOR THE PRESENT/FUTURE

Dependent on its intention and efforts, individual DMBs can enhance competitive advantages in the market by exercising effectively the controllable attributes such as friendly customer services, internal/external atmosphere, and speed of service delivery process.

As the first step of enhancing competitive advantages in the market through differentiating itself, a bank should conduct customer research regularly by emphasizing the measurement of the awareness of the bank and/or its products, and the evaluation of the quality of bank's customer service, which is acknowledged by customers, along with the evaluation of customers' preferences and attitudes. Based on customers' unique-shared features in the market which can be revealed as a result of customer research, customers have to be sub-grouped into several groups, and then differentiated marketing strategies have to be applied to them.

Because many Koreans are more likely to depend on information about the operations of FIs-HSM provided from other people (eg. acquaintances, members of family), a bank has to try to build a good reputation/image of trust and safety among the general public (a) by educating/encouraging its personnel to show good behaviour and attitudes in both formal and informal meetings with their existing and potential customers, and (b) by spreading word-of-mouth communication among the general public, for example, by help of funny logo song which can transmit a

good image of trust and safety of them.

A bank can promote its corporate name/image by help of logo songs, symbols, celebrities and others which are funny, memorable and carrying the promotion purposes. Especially, in the circumstances that all of DMBs are seen as the homogeneous in the eyes of customers mainly because they deal with almost the same savings products (and related) for household customers, and because their interest rates do not show much differences from others, the promotion of corporate reputation/image about the safety, kindness, friendliness and trust will be very important. In addition, a bank has to try to increase customer awareness of its product range, and to communicate the distinctive benefits of its products.

Second, a bank has to try (a) to recruit those who are open-minded and sociable, (b) to train newly employed personnel properly to fit their task and to ensure they understand their task fully, (c) to re-train them during the performance of their task regularly, (d) provide them with good working conditions and proper rewards, and (e) to audit their behaviour and attitudes toward customers.

Third, in order to provide a consistent (and unified image) atmosphere, a bank can adopt the same/similar interior design, colour, and arrangements throughout its branches, without repelling any group of the customers targeted. Moreover, a bank could use some sorts of interior design, background music, re-arrangement of layout in order to create a certain atmosphere which fits the main targeted customer groups of its individual branches. For example, a branch manager of a bank located in an apartment complex has to try to provide a more suitable atmosphere for housewives by providing women's magazines, information about woman/household, legal advices about household matters and others which

can attract housewives attention, because its main customer groups may be housewives. In addition, it may be good for a bank to appoint senior female personnel as a branch manager in a certain branch - in which the main target customer groups are housewives - in order to provide housewives with a better and easy atmosphere in contacting the branch manager.

Fourth, in order to collect savings of those customers who save a large amount of money, and who save regularly a certain amount by providing them with maximum convenience, a bank can send its personnel into the house/shop of the customers by ensuring an adequate security measurement.

Fifth, throughout its branches and central office, a bank has to establish a proper route to receive customers' complaints by setting up customer-complaint-hot-line, and by encouraging customers to speak out their complaints toward the bank. Here, the important thing to be remembered by a bank is that the bank have to investigate customers' complaints carefully as soon as it receive the complaints, and then it have to notice the results of the complaints to the customers.

Besides, at a branch level, a bank can organise social/sports clubs (eg. fishing, mountaineering, football, painting) with its customers in order to consolidate personal relationship between its personnel (and the bank) and its customers, and ultimately to create/extend customer loyalty in a long run.

These aforementioned controllable attributes can be easily adopted by a bank dependent on its intention/efforts at present. In addition, properly exercising its controllable attributes, a bank can alter/enhance its prevailed reputation about trust and safety - which can not be controlled by a bank easily - by help of effective promotion.

Some attributes⁸ which differentiate DMBs artificially from NBFIs can not be completely controlled by individual DMBs, as well as the whole DMBs, mainly due to the regulations imposed upon their operations by the regulatory authorities (eg. the Monetary Board, the BOK, and the MOF) in order to differentiate the operations of DMBs from those of NBFIs. However, it can be expected that those non-controllable attributes (eg. product ranges, interest rates, and delivery channel) of FIs-HSM will be freed from heavy regulations in the near future, in step with the government intention about the financial market liberalization.

Therefore, it can be said that the non-controllable attributes at present can be controllable in a long run, mainly due to the change of the regulations, the development of technology, the change of market conditions, and so on. The changing patterns will provide opportunities (or threats) for not only a bank, but also the whole FIs-HSM. Therefore, achieving competitive advantages through changing patterns will be not so big, even though a bank, which has a strong internal capabilities, can occupy a better position in the market than others.

On this point, it is required that a bank should try to maximize its controllable attributes in the market in order to consolidate households' loyalty, along with the investment in the R&D for preparing the future changing patterns (eg. relaxation of interest rates regulation) in the market. Thereafter, a bank has to accept and use - rather than deplore or avoid - the coming changes by developing an organizational structure that guarantees excellent customer services (Janson 1989). Finally, on implementing the differentiation strategies, a bank should make

⁸ : These include the range of savings (and related) products, profitabilities (interest rates paid/charged), and delivery channel.

sure that the strategies adopted are complying with the regulations imposed.

9.3.2. RECOMMENDATIONS FOR DMBs IN THE NATION-WIDE/LOCAL BASE

Both NCBs and SPBs, which are operating on a large scale in HSM in a nation-wide network, can have the following advantages over LBs, which are operating on a small scale in certain local areas : (a) economies of scale can be achieved in functions which are invisible to the customers, (b) more resources, personnel and technology, as well as finance, may be available for developing technical quality, and (c) they can attract higher qualified people as their personnel easily. Compared with NCBs and SPBs in HSM, on the other hand, LBs may have the following advantages : (a) decisions can be made near the market, (b) decisions can be made quickly, (c) they can have better/closed knowledge of the desires of the customers, (d) interactive marketing performance is easier to achieve, and (e) quality control - technical as well as functional - is easier to handle.

Therefore, differentiating themselves from LBs in HSM, NCBs and SPBs have to try to build up the mental image about the breadth of the branch network, and the reputation of trust and safety in household customers' mind. On the other hand, LBs have to concentrate on their close-relationship with their customers by appealing the development of local areas, and local-based enterprises by dealing with LBS. Besides, LBs can emphasize higher interest payments on time deposits having more than a one-year term, and on instalment savings deposits, compared with those of NCBs and SPBs. Throughout these differentiating processes, they - NCBs, SPBs and LBs - should try to provide their customers with friendly customer

services and better atmosphere.

9.3.3. RECOMMENDATIONS FOR MARKET LEADER/FOLLOWER

As a bank has enough internal capabilities, and its external conditions are favourable, the bank can try to become a market leader in the market it serves by building up customers' awareness about its reputation/image as a market leader. It can cooperate with other DMBs in order to build mobility barriers, and to preempt the market over other groups of FIs-HSM (eg. ITCs, MSFCs) by sharing technology (eg. CDs/ATMs network) with other DMBs. Co-operating with other DMBs, it can change the financial policies of the government and of the regulations.

Finally, on trying to differentiate itself from others, a bank, as a market leader, should remember the following things : (a) do not offer an exaggerated differentiation that the market doesn't want, (b) don't negate useful (and expensive) differentiation by undertaking useless parts of the product package, (c) do not let premature implementation of exotic technology trip you up, and (d) do not forget differentiation is not achieved until the customers are well aware of the difference created.

A bank, as a market follower/new entrant in the market, can compete effectively with those FIs-HSM positioned in the market by adopting the following strategies : (a) to attract the vacant niches of the market such as specific market segments⁹ (eg. medium and small enterprises and self employed of local areas in

⁹ : The proper market segmentation will give DMBs the following advantages as : "(a) A better understanding of the market and its tendencies. The analysis of the market by subgroups according to financial services needs allows client characteristics to be related to different type of services required.

the case of Dongnam Bank, the refugees (and their descendants) from north Korea in the case of Dongwha Bank), (b) to specialize in operations in the market rather than to try to compete for all customers with a complete product line in the market it serves, (c) to focus all competitive strengths on smaller competitors in the market (eg. LBs, ITCs, MSFCs, CCs), and/or (d) to follow the success of the market leaders by monitoring the market trend¹⁰, by allowing absolutely no slippage, and by avoiding confrontations with dominant competitors by not attempting to take away the whole of their customers, and to increase market share rapidly (Donnelly 1990).

A bank, a market leader/follower, has to prune unprofitable sector(s) of its operations if the bank do not change the unprofitable sector(s) into the profitable sector(s), and then consolidate its operations.

9.3.4. DIFFERENTIATING DMBs FROM NBFIs IN HSM

Briefly speaking, compared with NBFIs, DMBs have such competitive advantages in HSM as : (a) they are generally bigger than NBFIs in HSM in terms of assets, (b) they have a large number of branches, (c) they have many experts and use advanced technology (CDs/ATMs) widely, (d) they deal with a large variety of savings (and related) products, and (e) they are widely publicized¹¹. By using their superior internal capabilities, DMBs can conduct market research in HSM

..... (b) Identification of unfulfilled needs. The analysis of the behaviour of certain segments can reveal new service opportunities for the bank. (c) Improvement of marketing activities through a better adaptation of the services offered in response to the need of clients" (Cheron et al. 1989).

¹⁰ : Because others can make a mistake in the market or can mislead it intentionally.

¹¹ : On the other hand, the customer relationship of DMBs is not so strong comparing with that of NBFIs.

effectively and easily in order to understand the attitudes and preferences of their customers properly. By help of their wide use of technology and of their wide range of products, DMBs are able to have a chance of cross-selling in the market, and, in turn, they can enjoy significant marketing cost advantages over those NBFIs which are dealing with narrow range of products.

When differentiating themselves from NBFIs in HSM, DMBs have to try to build up customers' awareness about the image of wide branch network they have, and the reputation of trust and safety, along with additional financial services (eg. money transmission) which are available from their premises. Besides, DMBs can cooperate with other DMBs to maximize the use of technology (eg. CDs/ATMs network) for customer services in order to build market barriers against NBFIs. They can also cooperate with other DMBs to promote their collective image and/or product ranges in order to pre-occupy the market.

9.3.5. CONCLUSIONS

On differentiating itself from its competitors, first, a bank has to take into account its customers because the greater the satisfaction of customers, the greater the loyalty, the fewer the complaints, the less turnover of customers, and the more opportunities of cross-selling. If a bank can manage its customers successfully, the relationship between its personnel and its customers will be deepened at each stage in a customers' life cycle, and thus it will provide the bank with new sales opportunities to them. Therefore, it can be said that the key to successful differentiation lies, not inside the organisation, but in the marketplace.

Second, a bank should take into account its capabilities, its current image and its position in the market. In line with these, a bank should try (a) to enhance its reputation in the mind of customers and its competitors, (b) to build innovative atmosphere inside its organization, and (c) to maximize use of branch network. Besides, a bank should throw away bureaucratic attitudes inside its organization, and it should not dwell too much on the stories about past success.

To sum up, a bank can differentiate itself from its competitors through properly exercising such aspects as : (a) proper assortment of products permitted to engage in, (b) modification/upgrade of the existing product(s) into either standardised/uncomplicated ones, or more complex/less standardised ones, (c) changing the level of interest payments/charges, (d) providing customer convenience in terms of location and opening hours, (e) fostering its personnel vigorously through proper recruitment and continuous training and providing them with suitable working conditions and rewards, (f) providing suitable internal and external atmosphere, (g) using more sophisticated technology effectively, (h) building up corporate reputation/image in the mind of customers through the sound operations and proper promotion mix, (i) building up the image of a friendly customer service provider in the mind of customers, and (j) committing continuous investment in R&D.

Throughout the process of the differentiations, first, the methods adopted by a bank in HSM should be substantial ones - not superficial ones - so that its customers can substantially acknowledge the differentiated ones given by the bank in the market. Second, the differentiations should be effected in the market over a long time, and competitors should not easily be able to imitate the methods

adopted for differentiations. Third, a bank should not cling to current profits too much, but rather it should consider longer-term profits. Fourth, the various differentiated features of a bank should be consistent ones to fit in its target image in the marketplace, and its long-term strategic intentions. Finally, the strategies which a bank intends to exercise have to fit in with the regulations imposed.

9.4. LIMITATIONS OF THE RESEARCH

This research contains some of the following limitations, even though the researcher tries to reduce them. First, this research adopted close-formatted type of questionnaires in order to collect data from household customers and FIs-HSM, so that the quantity and characteristics of data which the researcher originally intended to collect were not fully accommodated in this research. In addition, it is possible that respondents might feel that their discretion was limited within the ready-made close-formatted type of questionnaires, so that they simply picked up answer(s) within the framework provided, even though they might have different diversified opinion(s) other than the framed opinions which were provided.

Second, it is possible the respondents might indicate untruthful opinions intentionally in their responses in order to hide something. For example, generally Koreans are likely to be reluctant to reveal their educational background and income level. If this happened strongly and widely among the respondents, it is possible that the findings of this research may be distorted.

Third, this research can not investigate all of the target population, but only accommodate a handful of the total household customers in some areas (not all

areas - mainly because of the limitation of time and resources) of Korea and some of FIs-HSM. Therefore, it can be somewhat doubtful to say that the respondents of this research can fully represent all of household customers and of FIs-HSM.

9.5. SUGGESTIONS FOR FURTHER RESEARCH

By replicating the methods adopted in this research, a larger scale of investigation can be conducted - by using more households in wide areas, as well as other financial institutions (eg. postal savings, insurance companies) which are operating in HSM, but were excluded in this research because of their small scales, or because they have been differently operated in HSM - in order to obtain more valid research results.

Besides, this research is more likely to concentrate on the savings side - which can be used as the main sources of profit generation of FIs-HSM - of households and financial institutions by skipping the other sides such as household lending and corporate financing sector intentionally. Therefore, it is required to study the other sides of the operations of FIs-HSM in order to get a whole picture of the operations of FIs-HSM in the further research.

Mainly, this research tries to provide DMBs with competitive strategies based on differentiation of themselves and/or their products in the market they serve. It is suggested, therefore, that the future researcher can try to formulate competitive strategies for NBFIs in HSM, because the operations and sizes of NBFIs are different from those of DMBs so that the differentiation strategies developed in this research may not fit in NBFIs.

Finally, the 5Ds (ie. disinvestment, de-escalation, do-nothing, development and diversification) - suggested by the researcher as the strategic directions in the market - are not described sufficiently in this research mainly because this research deals with differentiation strategies of DMBs. Therefore, it would be required to conduct further research about the 5Ds, as the strategic directions in the market, in the future.

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APPENDICES

[APPENDIX 3-1] THE ELEMENTS OF THE 7Ps

1. Product

Quality, Brand name, Service line, Warranty, Capabilities, Facilitating goods, Tangible clues, Price, Personnel, Physical environment, Process of service delivery.

2. Price

Level, Discounts & allowances, Payment terms, Customer's perceived value, Quality and price interaction, Differentiation.

3. Promotion

Advertising, Personal selling, Sales promotion, Publicity, Personnel, Physical environment, Facilitating goods, Tangible clues, Process of service delivery.

4. Place

Location, Accessibility, Distribution channels, Distribution coverage.

5. Physical Environment

Environment (Furnishings, Colour, Layout, Noise level), Facilitating goods, Tangible clues.

6. Participants

Personnel (Training, Discretion, Commitment, Incentives, Appearance, Interpersonal behaviour), Attitudes, Other customers (Behaviour, Degree of involvement, Degree of customer/customer contact).

7. Process

Policies, Procedures, Mechanization, Employee discretion, Customer involvement, Customer direction, Flow of activities.

Source : Booms and Bitner (1981), p. 50.

[APPENDIX 4-1] ACTIVITIES OF COMMERCIAL BANKS

1. Deposit-taking Activities

Passbook deposit can be widely used by individuals or business enterprises, and does not have any restrictions attached (ie. term period deposited, transaction number, amount deposited, eligible of the depositor). The interest bears every six months.

Household checking deposit was introduced in July 1981 in order to encourage the use of banking system by the public. The eligible depositors are those who have a good credit record which can be decided by individual DMBs. It pays interest every 3 months, and provides overdrafts with a limit on 0.3 mn Won, in general, and 30 days overdraft period.

Time deposit has no restrictions on the eligible of depositor, amount deposited, but has the restriction on deposit term ranging from 1 month to 2.5 years. Interest is paid monthly. Only income tax is levied on interest paid when household uses the TPGA.

Tax preferential general account (TPGA) can be opened/used by any individual who uses real name to deposits with more than 1 year deposit term. The deposit amount is limited up to 5 mn Won, and only one account is allowed to the same person throughout financial institutions. Interest paid to such deposits accounts as (1) time, instalment savings, mutual instalments, money in trust for non-specific, and money in instalment trust for purpose of DMBs, (2) time, and instalment savings of the post office, and (3) mutual time and savings, and mutual instalments of mutual savings and finance companies, is exempted from all taxes (defence tax, inhabitants' tax and educational tax), but interest income tax.

Savings deposit is similar to passbook deposits, but only one account is allowed to the same person who shows a certificate of residence. Amounts deposited are limited up to 30 mn Won. Interest is paid every 3 month.

Preferential savings deposit introduced in April 1985 is allowed only one account to the same person who shows a certificate of residence. Amounts deposited are limited up to 20 mn Won. Interest is paid every 3 months, but the account pays higher interest than savings deposit account in case of longer than 3 months term deposits.

Instalment savings deposit builds up to a contracted lump amount by the initial agreement of regular instalments monthly during the contracted periods ranging from 1 to 3 years. (a) General instalment savings deposit can be opened freely without any restriction within the contracted periods from 1 to 3 years. It can be opened through the TPGA. (b) Household preferential instalment savings deposit (introduced in April 1985 in order to encourage household savings) offers a higher rate of interest paid, and has the restrictions of only 3 year contract term, of only one account per the same person, and of generally 10 mn Won of the maximum contracted amount. It can be opened through the TPGA. (c) Scholarship instalment savings deposit can be used for students, and can be contracted up to generally 1 mn Won. Interest paid is exempted from all taxes but defense tax.

Mutual instalment deposit (originally introduced by the Citizens National Bank and then had extended to all of DMBs since April 1983) is similar to instalment savings deposit, but has the initial agreement of granting loans on instalments paid over one third of total contracted instalments. It can be opened by individuals and small & medium sized enterprises, and has five contract terms ranging from 1 to 5 years. It can be opened through the TPGA, and it is not classified into time & savings deposits so that the deposit-taken is exempted from legal reserve

requirements imposed.

Workman's property formation deposit introduced in April 1976 is similar to instalment savings deposit but restricted to workmen with salaries of 0.6 mn Won or less monthly. The deposit (having the contract terms from 1 to 5 years periods) is granted the bounty on deposit by the Government and employers in addition to the exemption of all taxes, but defence tax.

Certificates of Deposits (CDs) introduced in June 1984 are negotiable instruments which can be sold by the depositor at any time to another person. CDs are issued on denominations of 50 mn Won or more in order to attract surplus funds in the public, and the maturity days attached are between 91 days and 180 days. Interest paid is decided in market. CDs are exempted from legal reserve requirements because their redemptions are not permitted before the maturity days.

2. Trust Business

Trust business is not treated as a banking activity, but is engaged in DMBs by the provision 4 of the GBA. Trust business has the separated accounts from other activities of DMBs, and is not subject to the reserve requirements imposed by the GBA, but to the Securities Investment Trust Act. The uses of the trust funds (under the regulation by both the Trust Business Act and the MOF) are generally limited to investment in securities, loans on real estate or public organisations, and deposits in banks or postal savings. DMBs engage in (1) money in trust and (2) property in trust¹. The main forms of money in trust are :

Money in trust for household is allowed to an individual who shows a certificate of residence. Small amounts (eg. more than 1,000 Won) can be deposited with 1 year term, and can be easily withdrawn anytime. Interest is paid on the result of investment of the funds.

Money in trust for non-specific is one of long-term savings method attaching loan on collateral over the trust. Interest paid is more than 10 percent per annum. The account can be opened through the TPGA by households.

Money in instalment trust has one and a half years of minimum deposit terms, and attaches loan on collateral over the trust. Interest paid is more than 10 percent per annum. The account can be opened through the TPGA by households.

Money in trust for development has a fixed term of deposit periods (eg. 2 or 3 years) attaching loan on collateral over the trust. Interest paid is decided by market.

3. Lending Activities

The objectives of lending are to generate the primary sources of financial institutions' revenues, to enhance the ability of financial institutions to sell their other services (ie. cross-selling), to establish and strengthen customer relationship by lending funds to credit worthy borrowers, and to meet the financial institutions' responsibility of community borrowing needs.

Overdraft of household checking account can be set by pre-arrangement between a bank and household checking account holder, and the bank must pay automatically to the holders of checks

¹ : Main forms of property in trust are securities investment trust acted a depository for funds by DMBs to ITCs and merchant banking companies, real estate trust and public welfare trust.

issued up to the agreed limit (generally 0.3 mn Won). Lending through overdraft is convenient because of its speediness and simplicity. The interest charged has been liberalized since the 5th of December 1988. Overdrafts are only granted by DMBs and permitted only 30 days of overdraft period.

Loan on instalment savings deposit intends to provide the financial flexibility of the contractors of instalment savings deposit. The amount of loan is limited to the contracted lump amount of deposit, and those who made one third of the total instalments have entitled to get the loans. The loan is permitted until the expiration date of the deposit. The interest charged has been liberalized since the 5th of December 1988. The loan can be granted by DMBs as well as credit cooperatives.

Loan on collateral of instalment savings deposit intends to provide the financial flexibility of the contractors of instalment savings deposit. The amount of loan is limited to the 90 percent of the contracted lump amount of deposit. The loan is permitted until the expiration date of the deposit. The interest charged has been liberalized since the 5th of December 1988. The loan can be granted by DMBs as well as credit cooperatives.

Loan on collateral of time deposit is granted to those who have time deposit account, and the available amounts of loans are within 90 percent of the deposit up to the expiration date of the deposit. The loans can be granted by DMBs.

Loan on mutual instalments deposit is granted to those who have mutual instalments deposit account, and those who pay one third of the contracted instalments paid. The available amounts of loans are generally 20 mn Won, and the loan is granted from 1 to 5 years term. The loans can be granted by DMBs, except KorAm Bank.

Loan on workman's property formation deposit is granted to those who have workman's property formation deposit account. The loan is granted by DMBs generally. As a small amount loan, the DMBs grant up to 2 mn Won (or up to the contracted deposit amount) for 3 years (or up to the expiration of the deposit). As loan on collateral of the deposits, DMBs can grant within 90 percent of the total deposited amount up to the expiration of the deposit.

Loan on money in trust is granted over money in trust for nonspecific, money in trust for development, and money in instalment trust for purpose.

4. Ancillary Activities

DMBs engage in some ancillary activities without the permission of the Monetary Board such as collecting and distributing the government funds, delivering and keeping the Government issued bonds, and paying the principal and interest of the Government issued bonds as agencies of the Treasury, in addition to receiving public taxes and charge of local authorities and public institutions, the custody of securities and valuables, leasing a vault and factoring business. Besides, DMBs can engage in such other ancillary activities with the permission of the Monetary Board as trust business and credit card business. DMBs engage in the businesses of remittance and collection in domestic exchange as well as foreign exchange under the permission of the Foreign Exchange Control Act.

The Office of Bank Supervision and Examination is authorized to decide the demarcation of activities which DMBs can engage in. The diversification of DMBs' ancillary activities is intended to meet a wider demand for financial services, and to improve competitiveness with non-banking financial institutions.

[APPENDIX 4-2] ACTIVITIES OF INVESTMENT AND FINANCE COMPANY, AND MERCHANT BANKING COMPANY

The cash management account (CMA) is a method that (1) companies directly invest the public funds in such high profit attached financial products as commercial bills, factoring, bonds and debentures, and then (2) the companies return the operational profits to the public. Therefore, the rates of profitability are not fixed. The minimum investment limit is 4 mn Won (2 mn Won in local). Investment terms are within 180 days, but the investment can be withdrawn anytime.

The issuance of bills of the companies which requires more than 2 mn Won (1 mn Won in local companies) of investment with maturity terms from 1 to 90 days is sold to the public. The paid interest rates are between 2 percent and 6 percent per annum. The investment of the bills can be withdrawn anytime.

Sale of commercial bills, which the companies buy commercial bills issued by chosen enterprises and then resell them to the public, requires 5 mn Won (1 mn Won in local) of the minimum investment. Investment terms are ranged from 1 to 180 days, and the investment can be withdrawn anytime.

Along with CMA and sales of bills, the companies engage in the business of sale/purchase of the government bonds & debentures, and CDs of DMBs.

Together with the businesses of the investment and finance companies, 6 merchant banking companies deal in (1) beneficial certificates, and (2) security investment savings deposit of the investment trust companies.

[APPENDIX 4-3] DEPOSIT-TAKING OF INVESTMENT TRUST COMPANIES

Beneficial certificate is one of the savings means which the companies invest the public funds in (1) the bonds & debentures of the government or enterprises which guarantees fixed profits and other additional potential profits (called beneficial certificate in bonds & debentures), and (2) mainly the shares of enterprises (together with in bonds & debentures) which gives non-fixed profits, but potential high profit on the companies' investment of funds (called beneficial certificate in shares).

Workman's property formation deposit of ITCs is similar to that of DMBs. The deposit gives slightly lower guaranteed interest rates than those of DMBs, but adds potential profits over the interest paid. However, the deposit of ITCs can not be used as a loan on collateral.

Security investment savings deposit of ITCs is the same as the passbook deposit of DMBs, but gives higher interest paid than that of DMBs.

[APPENDIX 4-4] ACTIVITIES OF MUTUAL SAVINGS AND FINANCE COMPANY

They can not engage in demand deposits, and their short-range of financial products is preferentially treated in interest rates and conditions.

Mutual instalments deposit of the companies provides higher interest than mutual instalments deposit of DMBs which is treated as the same deposit product range. The account can be opened through the TPGA. Immediately after opening the account, the depositor can have a loan within the contracted amounts of the deposit on the collateral of estate.

Mutual time and savings deposit of the companies is similar to time deposit of DMBs, but gives higher interest paid than that of DMBs. Amounts deposited are at least 0.1 mn Won. The account can be opened through the TPGA.

Mutual savings deposit of the companies is the same as savings deposit of DMBs, but gives higher interest paid than that of DMBs.

Borrowing from the public of the companies is the same as time deposit of DMBs, but gives higher interest paid (same as the mutual time & savings deposit of the companies) than that of DMBs. This does not have any restriction on the deposit.

Together with the loan on mutual instalments deposit, the companies have engaged in the business of (1) loan on credit up to 30 mn Won regardless of the collateral, and (2) discount on bills.

=====

[APPENDIX 4-5] ACTIVITIES OF CREDIT COOPERATIVES

Their deposits and lending are more or less the same as those of DMBs, but their deposits are preferentially treated in interest rates and conditions. Interest paid on the deposits within 10 mn Won is exempted from all taxes, but defence tax.

They deal with passbook deposit, time deposit, self-support deposit (savings deposit of DMBs), and instalments savings deposit.

Along with taking deposits, credit cooperatives grant (1) loan on general, (2) loan on instalments savings, and (3) loan with collateral on instalments savings. Interest charged on loan has been liberalized since the 5th of December 1988.

[APPENDIX 6-1A] QUESTIONNAIRE FOR HOUSEHOLDS (ENGLISH VERSION)

How do you do ?

This questionnaire intends to obtain information related to household savings. By answering the following questions you will help improve the services of financial institutions for yourself and for others. Your opinions will remain strictly confidential, and no one other than the researcher will see and use it. Your assistance will be very much appreciated. Thank you very much !

In this survey, "savings" means all deposits with financial institution, money in trust, CMA, beneficial certificate, bonds and bills, investment in shares or "Kye".

***** Please put only one check mark in the space in front of any word or phrase describing an appropriate answer, unless the question contains any instructions.**

Q1. Who is (are) mainly in charge of the savings and spending of your household ?

- 1 Husband
- 2 Wife
- 3 Together with husband and wife
- 4 Other

If possible, please let one who is in charge of your household savings and spending answer the following questions.

Q2. How do you usually save ?

- 1 Save a fixed amount regularly before spending
- 2 Save an unfixed amount, but regularly
- 3 Save irregularly an unfixed amount
- 4 No savings have (If you answer this, please go to Q24)

Q3. On starting household savings, which one of these methods is (was) first considered ?

- 1 Choose institution first, and decide savings account
- 2 Choose savings account first, and decide institution
- 3 Choose either ways without any consideration

Q4. What are the main purposes of your household savings ? (Choose two answers, and then write "1" in the first purpose and "2" in the second purpose)

- 1 To prepare for future uncertainty or disease
- 2 To meet children's education
- 3 To insure elderly life
- 4 To buy house or real estate
- 5 To buy household goods (eg. car, furniture ...)
- 6 To increase household wealth in general
- 7 For other (eg. repayment of borrowing, holiday, marriage of child, bequest ...)

Q5. Where do you mainly put your savings ?

- 1 __ Nationwide commercial bank
- 2 __ Local bank
- 3 __ Specialised bank (CNB, KHB, SMIB, NACF, NFFC, NLCF)
- 4 __ Mutual savings and finance company
- 5 __ Credit union, Saemaul-kumko, Unit cooperative
- 6 __ Investment trust company
- 7 __ Investment and finance cos. and other institutions
- 8 __ Direct investment in shares (if you answer this, please go to Q24)
- 9 __ In "Kye" (if you answer it, please go to Q5-1)

Q5-1. Why do you mainly use "Kye" for savings ?

- 1 __ Because of the high profitability
- 2 __ In order to keep personal relationship
- 3 __ Unfamiliar with financial institutions
- 4 __ To get personal loans easily through "Kye"
- 5 __ Other

***** Please go to the question 24 *****

Q6. How many financial institution(s) do you use for your household savings ?

- 1 __ One
- 2 __ Two
- 3 __ Three
- 4 __ Four or more

***** The nine attributes affecting your choice of financial institution for household savings are listed below. Please indicate how the attributes are important (or unimportant) by circling the number provided from 1 to 5 beside each question number from Q7 to Q15.**

1 : Very unimportant 2 : Somewhat unimportant 3 : So-so
4 : Somewhat important 5 : Very important

Q7. 1 2 3 4 5 : Speed of deposit-taking and withdrawal process

Q8. 1 2 3 4 5 : Coverage of branch network

Q9. 1 2 3 4 5 : Internal/external atmosphere of financial institution

Q10. 1 2 3 4 5 : Good reputation of trust and safety of financial institution

Q11. 1 2 3 4 5 : Friendly customer services provided by the staff

Q12. 1 2 3 4 5 : Ranges of savings products (and related) for households

Q13. 1 2 3 4 5 : Possibility getting household loans related to savings account

Q14. 1 2 3 4 5 : Profitability provided

Q15. 1 2 3 4 5 : Convenient location

Q16. Compared with other financial institution(s), which attributes of the present financial institution used is the most important one to change you to other financial institution(s) ?

- 1 __ Slow speed of deposit-taking and withdrawal process
- 2 __ Inconvenient location(s) of financial institution and/or its branches
- 3 __ Deteriorated institution's atmosphere
- 4 __ Deteriorated the reputation on trust and safety
- 5 __ Provided the old-fashioned financial products in comparison with others
- 6 __ Inferior profitability provided
- 7 __ Deteriorated customer services provided by the staff

Q17. Now financial institutions of Korea have installed cash machines and automatic teller machines, what do you think about that ?

- 1 __ They will provide the speed and convenience of services
- 2 __ There is no difference in services provided whether they are installed or not
- 3 __ They will provide merely mechanical services without humane services
- 4 __ No idea at all

Q18. From which source do you mainly get information about financial institution(s) and/or savings products ?

- 1 __ Relatives or family members
- 2 __ Associates or acquaintances
- 3 __ Television advertisements
- 4 __ Radio advertisements
- 5 __ Newspaper or magazine advertisements
- 6 __ By seeing a signboard or outside advertisement
- 7 __ Advertisement pamphlets

Q19. What do you think of information provided by the sources answered in the question 18 when you choose financial institution(s) and/or savings account in order to save ?

- 1 __ To provide enough and useful information
- 2 __ To provide useful information, but insufficient
- 3 __ To provide insufficient and useless information

Q20. Which of these do (did) you consider when you open savings account(s) in financial institution(s) ?

- 1 __ High profitability
- 2 __ Safety
- 3 __ Easy withdrawal and deposit
- 4 __ Possibility of small amount of savings
- 5 __ To get a chance of household loans on savings account
- 6 __ Other

Q21. How many savings account(s) does your household have now ?

- 1 __ One
- 2 __ Two
- 3 __ Three
- 4 __ Four or more

Q22. Which of these is your household's main savings account ?

- 1 Time (mutual time) deposit
- 2 Savings (mutual savings, self-supporting) or preferential savings deposit
- 3 Instalment savings deposit
- 4 Mutual (housing) instalment deposit
- 5 Workman's property formation deposit
- 6 Money in trust
- 7 Beneficial certificate
- 8 The CMA (cash management account)
- 9 Other

Q23. If different financial institutions presently restricted to engage only in permitted business activities were to become homogeneous, what would you do ?

- 1 Change to the financial institutions providing various/wide range of products
- 2 Change to the financial institutions providing specialized/narrow range of products
- 3 Use the present one, regardless of any change(s) in the financial market
- 4 No idea at all

***** Continued from the questions 2, 5-1 or 23.**

Q24. If you have about 0.1 bn Won of a windfall (eg. lottery, inheritance), which of these will be your main choice ?

- 1 Savings in financial institution(s)
- 2 Investment in shares
- 3 Purchase in house or real estate
- 4 Lend privately
- 5 Invest in (auxiliary) business
- 6 Other

Q25. If you have to borrow some money (ie. similar amount of householder's annual income), which one of these sources do you mainly consider to ask ?

- 1 Nationwide commercial bank
- 2 Local bank
- 3 Specialized bank
- 4 Credit cooperative
- 5 Mutual savings and finance company
- 6 Other financial institution
- 7 Private lender or friend

Q26. Why do you prefer to borrow from the source answered in the question 25 ?

- 1 Simple and fast way of borrowing
- 2 Connection with savings account had
- 3 Good interest rate charged
- 4 Personal relationship
- 5 No requirement of collateral
- 6 Other

Q27. How do you usually pay for your shopping (eg. about 0.1 mn Won of value goods) in department store ?

- 1 By household check
- 2 By credit card
- 3 By cash (if you answer this, please go to Q27-1)
- 4 By other method

Q27-1. Why do you prefer cash as a payment method ?

- 1 Ease way of payment
- 2 Controlling balance easily
- 3 Stores' reluctance to accept other ones
- 4 Not accustomed to other methods
- 5 Without any special reasons

***** Continue to answer the following questions.**

Q28. How old are you ?

- 1 Under 30
- 2 30 to 39
- 3 40 to 49
- 4 50 to 59
- 5 60 or Over

Q29. Where do you live ?

- 1 In Seoul
- 2 In 5 big cities
- 3 In other cities or areas

Q30. What is your educational level ?

- 1 Under high school
- 2 High school
- 3 Over college or university

Q31. What is the occupation of the householder (ie. here, householder means the largest income earner) of your household ?

- 1 Self-employed (without professional knowledge)
- 2 Daily worker (employed no more than 3 months in the same job, physical work)
- 3 Salaried worker (employed more than 3 months in the same job)
- 4 Professional (with professional knowledge)
- 5 Other (pensioner or interest income earner)

Q32. What is the total monthly income of your household after deducting income tax ?

- 1 Under 0.5 mn Won
- 2 From 0.5 mn to under 1.0 mn Won
- 3 From 1.0 mn to under 1.5 mn Won
- 4 From 1.5 mn to under 2.0 mn Won
- 5 2.0 mn Won or over

Q33. Are you usually the decision maker of your household (eg. in the choice of financial institution/savings account) ?

- 1 Yes
- 2 No

***** Thank you for your help and cooperation !!! *****

가계저축 설문조사

안녕하십니까 ?

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본설문지에서, 저축이란 금융기관과의 예금, 금전신탁, 어음관리구좌, 수익증권저축, 국공채의 매수, 증권 투자, 계 등을 포함한다.

※※※ 질문에 특별히 다른 지시가 없는 한, 주어진 질문에 적당한 답을 하나만 골라 주어진 빈 칸에 표시 (X)를 하십시오.

Q1. 귀 대의 가계저축이나 소비결정을 주로 누가 담당하고 있습니까 ?

- 1 _____ 남편
- 2 _____ 아내
- 3 _____ 남편과 아내가 함께
- 4 _____ 기타

※※※ 다음의 질문부터는 가능한 한 귀 대에서 가계저축과 소비를 담당하시는 분이 응답하도록 협조하여 주십시오.

Q2. 귀하는 보통 어떻게 저축을 하고 있습니까 ?

- 1 _____ 소비 전에 정해진 금액을 정기적으로 저축한다.
- 2 _____ 정해진 금액은 아니지만 정기적으로 저축한다.
- 3 _____ 정해지지 않은 금액을 수시로 저축한다.
- 4 _____ 저축을 하지 않는다. (여기에 답 하셨다면 24번 질문으로 가십시오)

Q3. 가계저축을 하실 때, 다음 방법 중 어느 것을 고려합니까 ?

- 1 _____ 금융기관을 먼저 선택하고 나서 예금품을 결정한다.
- 2 _____ 예금품목을 먼저 선택하고 나서 금융기관을 결정한다.
- 3 _____ 별 생각없이 아무것이든 선택한다.

Q4. 귀하가 가계저축을 하는 주요 목적은 무엇입니까 ? (보기에서 2개 골라 그 적절한 순서대로 1과 2를 표기하십시오.)

- 1 _____ 미래의 예기지 않은 일이나 질병에 대비
- 2 _____ 자녀의 교육비 마련
- 3 _____ 노후생활 대비
- 4 _____ 집이나 부동산 마련 (차, 가구 등)
- 5 _____ 가구용품 마련 (차, 생활을 위해)
- 6 _____ 전만으로 부유한 생활, 휴가, 자녀결혼 준비, 유산마련 등)
- 7 _____ 기타

Q5. 귀하는 주로 어디에 저축하십니까 ?

- 1 _____ 일반시중은행 (제일, 상업, 한일, 조흥, 서울신탁, 한미, 신한, 대동, 동화, 동남은행)
- 2 _____ 지방은행
- 3 _____ 특수은행 (국민, 주택, 중소기업, 농협, 수협, 축협)
- 4 _____ 상호신용금고
- 5 _____ 신용협동기구 (신협, 새마을금고, 단위 농,수,축협)
- 6 _____ 투자신탁회사
- 7 _____ 투자금융회사나 그외 금융기관
- 8 _____ 주식투자 (여기에 답하셨으면 24번 질문으로 가십시오)
- 9 _____ 계 (여기에 답하셨으면 5-1번 질문으로 가십시오)

Q5-1. 저축수단으로 주로 계를 하는 이유는 ?

- 1 _____ 높은 수익성
- 2 _____ 개인적 친분때문에
- 3 _____ 금융기관 사용에 익숙치 않아서
- 4 _____ 개인적인 금전대출이 용이해서
- 5 _____ 기타

*** 24번 질문으로 가십시오 ***

Q6. 귀하는 몇 개의 금융기관에 가계저축을 하십니까 ?

- 1 _____ 하나
- 2 _____ 둘
- 3 _____ 셋
- 4 _____ 넷 이상

*** 다음 9 개의 질문은 가계저축을 위한 금융기관을 선택하는 것에 영향을 주는 요인들입니다. 그 요인들이 얼마나 중요한지 그 정도를 1 부터 5 까지의 번호에 동그라미 (O) 를 하십시오. (7 번부터 15 번 질문에 해당)

1 = 중요치 않음
4 = 약간 중요

2 = 별로 중요치 않음
5 = 매우 중요

3 = 보통

- Q7. 1 2 3 4 5 예금과 인출 과정의 속도
- Q8. 1 2 3 4 5 지점망
- Q9. 1 2 3 4 5 금융기관의 내,외적 분위기
- Q10. 1 2 3 4 5 금융기관의 신용과 안전성에 대한 평판
- Q11. 1 2 3 4 5 직원들이 제공하는 친절한 서비스
- Q12. 1 2 3 4 5 가계저축에 관련된 금융상품들
- Q13. 1 2 3 4 5 가계저축에 관련된 가계대부의 가능성
- Q14. 1 2 3 4 5 이자율 (수익성)
- Q15. 1 2 3 4 5 사용에 편리한 위치

Q16. 다른 금융기관과 비교해 볼 때, 현재 귀하가 사용하시는 금융기관을 다른 금융기관으로 바꾸게 만드는 요인이 있다면 무엇입니까 ?

- 1 예금과 인출의 속도가 느려서
- 2 금융기관과 그 지점의 위치가 불편하게 놓여 있어서
- 3 금융기관의 분위기가 나빠져서
- 4 신용과 안전성에 대한 평판이 좋지 않아져서
- 5 제공하는 금융상품들이 다른 금융기관에 비해 시대에 뒤떨어져서
- 6 이자율 (수익성)이 낮아서
- 7 직원들의 불친절한 서비스

Q17. 금융기관들이 현금 지급기를 설치하고 있는데, 이에 대한 귀하의 의견은 어떻습니까 ?

- 1 빠르고 편리한 서비스를 제공해 준다
- 2 고객서비스에는 별 차이가 없다
- 3 대인적 접촉없이 단순히 기계에 의한 서비스 제공
- 4 별 의견이 없다

Q18. 귀하는 금융기관과 금융(저축)상품에 대한 정보를 어디에서 얻으십니까 ?

- 1 가족이나 친척을 통해서
- 2 친구나 동료들 통해
- 3 TV 광고
- 4 라디오 광고
- 5 신문 잡지의 광고
- 6 게시판이나 옥외 광고를 보고
- 7 광고 책자를 보고

Q19. 가계저축을 위해 금융기관을 선택할 때, 18 번 질문에 응답한 것이나 사람이 제공하는 정보에 대한 귀하의 의견은 무엇입니까 ?

- 1 충분하고 유용한 정보를 제공해 준다
- 2 유용하지만 불충분하다
- 3 불충분할 뿐더러 쓸모도 없다

Q20. 귀하는 금융기관에 예금통장을 개설할 때 무엇을 고려하십니까 ?

- 1 높은 이자율 (수익성)
- 2 안전성
- 3 예금과 인출의 용이성
- 4 소액의 예금 가능성
- 5 저축과 관련하여 용이한 대출
- 6 기타

Q21. 귀하는 현재 예금통장을 몇 개 가지고 있습니까 ?

- 1 한 개
- 2 두 개
- 3 세 개
- 4 네 개 이상

Q22. 귀하의 주요한 예금통장은 다음 중 어느 것입니까 ?

- 1 _____ 정기예금, 정기부금예수금
- 2 _____ 저축예금, 자립예탁금, 가계우대저축예금
- 3 _____ 적금
- 4 _____ 상호부금, 주택부금
- 5 _____ 목돈마련저축, 재형저축
- 6 _____ 금전신탁
- 7 _____ 수익증권저축
- 8 _____ 어음관리구좌 (CMA)
- 9 _____ 기타

Q23. 만약에 모든 금융기관들이 동질화되어, 그들이 금융상품을 자유로이 취급할 수 있게된다면, 귀하는 어떻게 하시겠습니까 ?

- 1 _____ 여러가지 금융상품을 취급하는 금융기관을 선택
- 2 _____ 전문화된 금융상품을 취급하는 금융기관을 선택
- 3 _____ 이유없이, 현재의 금융기관을 계속해서 이용
- 4 _____ 잘 모르겠다

*** 질문 2, 5-1 과 23 에서 연결됩니다 ***

Q24. 만약에 귀하에게 1 억원이 생긴다면 (예: 복권당첨, 유산상속) 어떻게 하시겠습니까 ?

- 1 _____ 금융기관에 저축
- 2 _____ 주식에 투자
- 3 _____ 집이나 부동산 구매
- 4 _____ 사채로 운용
- 5 _____ 개인사업에 투자
- 6 _____ 기타

Q25. 만약에 귀하가 돈을 빌려야 할 경우 (1 년 수입에 해당하는 금액), 다음 보기 중 어디를 주로 고려하시겠습니까 ?

- 1 _____ 일반시중은행
- 2 _____ 지방은행
- 3 _____ 특수은행
- 4 _____ 신탁기구
- 5 _____ 상호신용금고
- 6 _____ 기타 금융기관
- 7 _____ 개인 (사채) 나 친구

Q26. 귀하께서 25 번의 질문에 답하신 기관으로부터 금전을 차용하시기를 선호하는 이유는 무엇입니까 ?

- 1 _____ 차용하기가 간단하고 빨라서
- 2 _____ 저축과 관련하여 대출할 수 있어서
- 3 _____ 이자율이 낮아서
- 4 _____ 개인적 친분관계
- 5 _____ 무담보 차용이 가능해서
- 6 _____ 기타

Q27. 백화점에서 물건을 구입하실 때 (약 10 만원 정도의 소비) 귀하는 주로 어떻게 지불하십니까 ?

- 1 _____ 가계수표
- 2 _____ 신용카드
- 3 _____ 현금으로 (여기에 답하셨다면 27-1번 질문으로 가십시오)
- 4 _____ 기타

Q27-1. 지불방법으로 현금을 선호하는 이유는 무엇입니까 ?

- 1 _____ 지불하기가 편해서
- 2 _____ 돈의 소비정도를 쉽게 조절할 수 있어서
- 3 _____ 상점에서 다른 지불방법을 꺼려해서
- 4 _____ 다른 지불방법에 익숙하지 않아서
- 5 _____ 특별한 이유가 없다

※※※ 계속해서 답 하십시오 ※※※

Q28. 귀하의 나이는 ?

- 1 _____ 30 세 이하
- 2 _____ 31 - 39 세
- 3 _____ 40 - 49 세
- 4 _____ 50 - 59 세
- 5 _____ 60 세 이상

Q29. 거주지는 ?

- 1 _____ 서울
- 2 _____ 5대 도시
- 3 _____ 기타지역

Q30. 귀하의 교육수준은 ?

- 1 _____ 중졸 이하
- 2 _____ 고졸
- 3 _____ 대졸 이상

Q31. 귀하의 주요수입원자의 직업은 ?

- 1 _____ 자영업
- 2 _____ 일일 고용인
- 3 _____ 봉급 생활자
- 4 _____ 전문직업인
- 5 _____ 기타

Q32. 귀하의 총 월소득 (소득세를 공제하고) 얼마입니까 ?

- 1 _____ 50 만원 미만
- 2 _____ 50 만원 이상 - 100 만원 미만
- 3 _____ 100 만원 이상 - 150 만원 미만
- 4 _____ 150 만원 이상 - 200 만원 미만
- 5 _____ 200 만원 이상

Q33. 가계의 금융결정은 (예: 금융기관, 예금통장결정) 주로 귀하께서 하고 있습니까 ?

- 1 _____ 예
- 2 _____ 아니오

※※※※ 협조하여 주셔서 대단히 감사합니다. ※※※※

[APPENDIX 6-2A] QUESTIONNAIRE FOR DMBs (ENGLISH VERSION)

Dear The Head of Savings Department

How do you do ?

I am a student researching about "the competitive strategies among financial institutions in the household savings market in Korea" in order to pursue a doctoral degree in Stirling University in UK. As a part of the research, I am conducting this survey.

This questionnaire intends to obtain information related to your bank operations in the household savings market and your knowledge on household customers. By answering the following questions you will help my research, and it will be expected to give you appreciate the overall conditions of your bank's operations.

Your opinions will remain strictly confidential, and no one other than the researcher will see and use it. Please send back this questionnaire to me by using the envelop included, after answering the questions. Your assistance will be very much appreciated.

Thank you very much !

Yours Sincerely,

Tebek Song

=====
***** Please put only one check mark in the space in front of any word or phrase describing an appropriate answer, unless the question contains any instructions.**

Q1. Which of these is your bank's strategy about savings (and related to) products in the household savings market ?

- 1 Provide all products permitted to deal with
- 2 Based on the choice of competitors, provide some of products permitted
- 3 Based on the market demand, choose some of products and provide them

Q2. Which of these is the main hindrance when launching a newly innovated savings (and related to) product of your bank ?

- 1 Excessive interference of the regulatory authorities
- 2 Lack of expert/technology
- 3 Doubt of market acceptance/demand due to the lack of market knowledge

Q3. If all FIs-HSM are allowed to deal with other savings (and related to) products of competitors (eg. NBFIs), which of these is your bank's reaction ?

- 1 Immediately start to diversify in order to enlarge the range of products
- 2 Follow the reaction of competitors
- 3 Keep the present range of products, and specialize the products dealt with
- 4 No idea at all at the present

Q4. How does your bank decide interest rates paid/charged ?

- 1 Decide interest rates based on the maximum guideline of the regulatory authorities
- 2 Set interest rates based on competitors' decision
- 3 Decide interest rates based on the market conditions within the maximum guideline

Q5. If interest rates of all FIs-HSM are liberalized and freed from the interference of their regulatory authorities, what do you think would be the effect to your bank's operation ?

- 1 Increase operating costs and reduce profits
- 2 Reduce operating costs and increase profits
- 3 No idea at all at present

Q6. Which of these is your bank's strategy for branching ?

- 1 Establish all branches up to the permitted numbers
- 2 Keep on the present number of branches, without establishing any new branch
- 3 Consolidate number of branches for rationalization

Q7. FIs-HSM have now installed CDs/ATMs, which of these do you agree with ?

- 1 They provide the speedy and convenient services to customers, so that those FIs-HSM which have CDs/ATMs will enjoy competitive advantage over the others
- 2 They provide merely mechanical services, and annoy customers and those FIs-HSM which install because of their frequent break-down
- 3 They lessen work-load of counter staffs of FIs-HSM, so that the staffs can provide better customer services
- 4 They bring no difference in an operation of FIs-HSM

Q8. Which of these methods has your bank mainly adopted to increase an awareness of your bank and to promote your products ? (Please rank the methods listed below in their usage by your bank, write the number 1 next to the most important method, 2 by the second one, and 3 by the third one)

- 1 A personal contact with customers
- 2 A television or radio advertisement
- 3 A newspaper or magazine advertisement
- 4 A pamphlet, signboard or outside advertisement
- 5 Provide promotional gift (eg. calender)
- 6 Sponsorship in some worthwhile events
- 7 Other (_____)

Q9. Which is the main promotional objectives of your bank ?

- 1 Promote corporate name/image
- 2 Increase customer awareness of products
- 3 Communicate the distinctive benefits of products to encourage trial of the products
- 4 Other (_____)

Q10. How long does your bank usually train the newly employed staff ?

- 1 More than 1 month
- 2 Less than 1 month
- 3 Not at all

Q11. Has your bank had different marketing strategies to attract more effectively different customer groups (eg. professionals, self-employed, salary workers) ?

- 1 Somewhat
- 2 To a large extent
- 3 Not at all

Q12. Is your bank involved in customer research ?

- 1 __ Yes (go to Q13) 2 __ No (go to Q14)

Q13. Which of these is your bank's objectives of conducting customer research ?

- 1 __ Evaluate of customer preference/attitudes about financial institutions and products
2 __ Measure the awareness of products
3 __ Evaluate the quality of customer services acknowledged by customers
4 __ Other (_____)

*** Continue to Q15 ***

Q14. What is the main reasons for not conducting any customer research ?

- 1 __ Unnecessary
2 __ Too expensive
3 __ Not easy to conduct because of the lack of expert
4 __ Other (_____)

*** Please pick up the most suitable answers - either two or three - as provided the guideline of following questions from 15 to 24, and write the number "1", "2" or "3" next to the answer in the sequences of their importance.

Q15. What do you think are the main strengths of your bank comparing with other banks in the household savings market ? (Choose two answers, and write 1 for the first one and 2 for the second one)

- 1 __ Strong customer relationship
2 __ Better profitability provided
3 __ Well-located branches/places
4 __ Superior atmosphere of institution
5 __ Better expert had
6 __ Other (_____)

Q16. What do you think are the main strengths of your bank over NBFIs in the household savings market ? (Choose two answers, and write 1 for the first one and 2 for the second one)

- 1 __ Superior degree of credibility
2 __ Wide customer base
3 __ Wide product ranges for household savings
4 __ Superior atmosphere of institution
5 __ Wide coverage of branch network
6 __ Other (_____)

Q17. What do you think are the main weaknesses of your bank comparing with other banks in the household savings market ? (Choose two answers, and write 1 for the first one and 2 for the second one)

- 1 __ Inferior coverage of branch network
2 __ Narrow customer base/relaxed customer relationship
3 __ Inferior atmosphere of institution
4 __ Lack of expert
5 __ Other (_____)

Q18. What do you think are the main weaknesses of your bank over NBFIs in the household savings market ? (Choose two answers, and write 1 for the first one and 2 for the second one)

- 1 __ Inferior profitability provided
- 2 __ Strong interference by the regulatory authorities
- 3 __ Relaxed customer relationship
- 4 __ Slow process of deposit/withdrawal
- 5 __ Other (_____)

Q19. Which of these does your bank regard as main competitors of your bank in the household savings market ? (Choose two answers, and write 1 for the first one and 2 for the second one)

- 1 __ Nationwide commercial banks/specialized banks
- 2 __ Local banks
- 3 __ Investment trust companies
- 4 __ Mutual savings and finance companies
- 5 __ Credit (or Unit) cooperatives, Postal savings
- 6 __ Other financial institutions

Q20. Which of these do you think are household customers' main purposes of savings ? (Choose two answers, and write 1 for the first one and 2 for the second one)

- 1 __ To prepare future uncertainty or disease
- 2 __ To meet children's education
- 3 __ To insure elderly life
- 4 __ To buy house or real estate
- 5 __ To buy household goods (eg. car, furniture ...)
- 6 __ To increase household wealth in general
- 7 __ For other (eg. repayment of borrowing, holiday, marriage of child, bequest ...)

Q21. Which of these attributes has your bank mainly tried to provide to household customers in order to attract and sustain them in your bank ? (Choose three answers, and write 1 for the first one, 2 for the second and 3 for the third)

- 1 __ Speed of deposit-taking and withdrawal process
- 2 __ Wide coverage of branch networks
- 3 __ Superior atmosphere of institution
- 4 __ Enhanced reputation of trust and safety
- 5 __ Friendly customer services provided
- 6 __ Enlarge the range of savings (and related) for households
- 7 __ Automatic grant of household loans on savings account, if required
- 8 __ Superior profitability
- 9 __ Convenient location

Q22. Which of these reasons do you think are important when inducing households to change a FIs-HSM ? (Choose three answers, and write 1 for the first important one, and then 2 and 3)

- 1 __ Slow speed of deposit-taking and withdrawal process
- 2 __ Inconvenient location(s) of FIs-HSM
- 3 __ Deteriorated atmosphere
- 4 __ Deteriorated the reputation on trust and safety
- 5 __ Provided the old-fashioned products
- 6 __ Inferior profitability provided
- 7 __ Deteriorated customer services provided

Q23. Which of these do you think are required by your bank to develop/expand further ? (Choose three answers, and write 1 for the most important one, and then 2 and 3)

- 1 __ Enlarge customer base
- 2 __ Recruit/train/sustain expert
- 3 __ Enlarge/up-date technology adopted
- 4 __ Develop/diversify products
- 5 __ Be freed branching policy from the regulation
- 6 __ Be relaxed interest rates from the regulation
- 7 __ Be freed the management interference from the outsider/regulation
- 8 __ Other (_____)

Q24. Which of these requirements does your bank consider important when granting household loans ? (Choose two answers, and write 1 for the most important one and 2 for the second important one)

- 1 __ Conditions of real estate collateral
- 2 __ Personal savings as collateral
- 3 __ Credibility of borrower
- 4 __ Personal relationship
- 5 __ Occupation of borrower
- 6 __ Person who has suretyship of borrower
- 7 __ Other (_____)

***** Thank you for your help and cooperation !!! *****

[APPENDIX 6-2B] QUESTIONNAIRE FOR DMBs (KOREAN VERSION)

저축부장님 귀하

안녕하십니까 ?

저는 "가계저축시장에서 경쟁적인 이점을 확보하기 위한 한국 금융기관의 차별화전략" 이란 주제로 영국의 스타팅대학교에서 박사과정을 공부하고 있는 학생입니다.

그 연구의 한부분으로서, 이 조사가 채택되었습니다.

본 설문지는 부장님의 고견을 통하여 가계저축시장에서의 귀 은행의 영업활동과 귀 은행의 가계고객에 대한 일반 지식을 얻고자 합니다.

이 설문지에 응답하심으로써, 부장님께서서는 제 연구에 도움을 주실뿐만 아니라, 귀 은행의 전반적인 영업활동상태의 평가가 가능할것이라 사려 됩니다.

응답하여 주신 내용들은 절대 비밀에 부쳐지며, 본 연구목적으로만 사용될 것 입니다. 첨부된 반송우편봉투를 사용 하여, 이 설문지를 반송하여 주십시오.

부장님의 협조에 대단히 감사를 드립니다.

송 태 백

※※※ 질문에 특별히 다른 지시가 없는 한, 주어진 질문에 적당한 답을 한 개 만 골라 주어진 빈 칸에 표시 (X) 를 하십시오.

- Q1. 가계저축시장에서의 저축 (관련) 상품에 대한 귀 은행의 전략은 다음 중 어느것 인니까 ?
- 1 허가된 모든 저축 (관련) 상품을 취급
 - 2 경쟁상대와 보조를 맞추어, 상품을 취급
 - 3 시장수요에 기준하여, 상품을 취급
- Q2. 귀 은행이 새로운 저축 (관련) 상품을 개발하여 시장에 선보이는데 제약을 주는 주요인은 무엇입니까 ?
- 1 감독관청의 지나친 간섭
 - 2 전문인력과 기술의 부족
 - 3 시장지식 부족으로 시장수용 또는 수요에 대한 회의성
- Q3. 만약 모든 금융기관이 다른 경쟁금융기관의 저축 (관련) 상품을 다루는것이 자유로이 허용된다면, 귀 은행은 어떻게 하시겠습니까 ?
- 1 즉시, 취급하는 저축 (관련) 상품의 범위를 확대, 다양화
 - 2 경쟁금융기관의 반응을 따른다
 - 3 현재의 취급하는 상품 범위를 유지하며, 그 분야에서 전문화
 - 4 잘 모르겠다

- Q4. 귀 은행은 지급/수수이자율을 어떻게 결정하고 있습니까 ?
- 1 절대적으로 감독관청이 예시한 최고 이자율에 맞추어 결정
 - 2 경쟁금융기관의 결정에 기준을 두고 결정
 - 3 시장조건에 초점을 두고 감독관청의 예시한 최고이자율 한도내에서 결정
- Q5. 모든 금융기관의 이자율이 자율화된다면, 귀 은행의 운영에 어떠한 영향을 준다고 생각하십니까 ?
- 1 운영비용이 증가되고, 이윤이 축소
 - 2 운영비용이 축소되고, 이윤이 증가
 - 3 잘 모르겠다
- Q6. 지점망에 대한 귀 은행의 전략은 무엇입니까 ?
- 1 최대한 허가된 갯수의 지점을 설치
 - 2 현재의 지점망을 유지한다
 - 3 현재의 지점망을 축소, 합리화
- Q7. 현재 금융기관들이 현금지급기를 설치하고 있는데, 이에 대한 귀하의 의견은 ?
- 1 현금지급기는 고객에게 신속하고 편리한 서비스를 제공한다. 따라서, 그것을 설치한 금융기관들은 다른 금융기관들에 비교하여 경쟁적 이익을 누릴 것이다
 - 2 현금지급기는 고객에게 단순한 기계적 서비스만 제공하고 잦은 고장으로 인해 오히려 설치한 금융기관들을 귀찮게 한다
 - 3 현금지급기는 금융기관 직원들의 업무를 덜어줌으로서, 직원들의 고객서비스를 향상시킨다
 - 4 금융기관 경영에 별 차이를 주지 않는다
- Q8. 귀 은행은 귀 은행을 널리 알리고 귀은행의 금융상품의 판매를 촉진 시키기위해 주로 어떤 방법을 이용합니까 ? (가장 적절한 답 3 개를 골라 그 중요한 순서대로 1, 2, 3 을 표기하십시오)
- 1 고객들과의 개인적 접촉
 - 2 TV 또는 라디오 광고
 - 3 신문, 잡지 광고
 - 4 팜플렛, 게시판 또는 옥외 광고
 - 5 선물 (예: 달력) 제공
 - 6 일반행사의 지원
 - 7 기타 (_____)
- Q9. 귀은행의 홍보전략의 주요한 목적은 무엇입니까 ?
- 1 은행의 이미지와 이름 홍보
 - 2 금융상품에 대한 고객의 인식을 높인다
 - 3 금융상품사용의 이점을 홍보하고, 고객의 사용을 유도
 - 4 기타 (_____)

Q10. 귀 은행의 신입사원 훈련기간은 ?

- 1 _____ 1 개월 이상
- 2 _____ 1 개월 미만
- 3 _____ 없다

Q11. 귀 은행은 세분화된 고객층들 (예: 전문직업인, 봉급생활자) 을 효과적으로 귀 은행으로 유치하기 위하여 어느정도의 차별화된 시장전략을 그들에게 실행하고 있습니까 ?

- 1 _____ 약간
- 2 _____ 상당한 수준의 범위에서
- 3 _____ 전혀 없다

Q12. 귀 은행은 시장, 고객조사를 하고 있습니까 ?

- 1 _____ 예 (여기에 답하였으면, 13 번 질문으로 가십시오)
- 2 _____ 아니오 (여기에 답하였으면, 14 번 질문으로 가십시오)

Q13. 귀 은행이 시장, 고객조사를 하는 이유는 ?

- 1 _____ 고객의 선호도나 태도를 평가하기 위해
- 2 _____ 금융상품에 대한 인식도를 평가
- 3 _____ 고객서비스 정도에 대한 고객들의 인식도 평가
- 4 _____ 기타 (_____)

***** 15 번 질문으로 가십시오 *****

Q14. 귀 은행이 시장, 고객조사를 하지않는 이유는 ?

- 1 _____ 필요없다고 생각해서
- 2 _____ 비용이 너무 많이 들어서
- 3 _____ 전문가의 부족으로 시도하기가 쉽지 않아서
- 4 _____ 기타 (_____)

***** 15 번 부터 24 번 질문에서, 질문의 지시에 따라 가장 적절한 답을 2 개 내지 3 개를 골라 그 중요한 순서대로 1, 2, 3 을 표기하십시오.

Q15. 가계저축시장에서 다른은행들과 비교하여, 귀은행의 주요 장점은 무엇이라고 생각하십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 _____ 고객과의 긴밀한 관계
- 2 _____ 높은 수익성
- 3 _____ 적절한 장소에 위치 (지점 등)
- 4 _____ 좋은 분위기
- 5 _____ 전문인력의 확보
- 6 _____ 기타 (_____)

Q16. 가계저축시장에서 비은행금융기관들과 비교하여, 귀 은행의 주요 장점은 무엇이라고 보십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 높은 신뢰성
- 2 넓은 고객층
- 3 가계저축을 위한 넓은 취급상품의 범위
- 4 좋은 분위기
- 5 넓은 지점망
- 6 기타 (_____)

Q17. 가계저축시장에서 다른은행들과 비교하여, 귀은행의 주요 단점은 무엇이라고 생각하십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 취약한 지점망
- 2 좁은 고객층, 느슨한 고객관계
- 3 열악한 분위기
- 4 전문인력의 열세
- 5 기타 (_____)

Q18. 가계저축시장에서 비은행금융기관들과 비교하여, 귀 은행의 주요 단점은 무엇이라고 보십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 열세한 수익성
- 2 감독관청의 지나친 간섭
- 3 느슨한 고객관계
- 4 느린 속도의 예금접수/인출절차
- 5 기타 (_____)

Q19. 가계저축시장에서 귀 은행의 주요 경쟁금융기관은 ? (2 개를 골라 1 과 2 를 표기)

- 1 일반시중은행/특수은행
- 2 지방은행
- 3 부자신탁회사
- 4 단위 농, 수, 축협/우체국 저축
- 5 기타 금융기관

Q20. 가계고객의 주요한 가계저축 목적은 다음 중 어느 것이라고 생각하십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 미래의 예기치 않은 일이나 질병에 대비
- 2 자녀의 교육비 마련
- 3 노후생활 대비
- 4 집이나 부동산 마련
- 5 가구용품 마련 (차, 가구 등)
- 6 전반적으로 부유한 생활을 위해
- 7 기타 (자용금 상환, 휴가, 자녀결혼 준비, 유산마련 등)

Q21. 가계고객을 귀 은행으로 유도하고 그들이 계속해서 귀 은행을 이용하게끔 하기 위하여, 귀 은행은 주로 다음의 어떠한 점을 중요시합니까 ? (3 개를 골라 1, 2, 3 를 표기)

- 1 예금과 인출 절차의 신속성
- 2 넓은 지점망 확보
- 3 쾌적한 분위기 조성
- 4 신용과 안전성에 대한 신뢰감 확보
- 5 친절한 고객 서비스 제공
- 6 가계저축상품의 취급 확대
- 7 가계저축과 관련하여 가계대부의 확대
- 8 높은 이자율 제공
- 9 사용에 편리한 장소에 위치

Q22. 가계고객들이 금융기관을 바꾸는 요인은 무엇이라고 생각하십니까 ? (3 개를 골라 1, 2, 3 를 표기)

- 1 예금과 인출 절차의 느린 속도
- 2 사용에 불편한 장소에 위치
- 3 기관의 분위기나 이용 고객들의 수준 저하
- 4 신용과 안전성에 대해 나빠진 평판
- 5 시대에 뒤떨어진 금융상품 취급
- 6 낮은 이자율
- 7 불친절한 고객 서비스

Q23. 귀 은행이 더욱 더 확장/발전하기 위해서는 다음 중 무엇이 요구된다고 생각하십니까 ? (3 개를 골라 1, 2, 3 를 표기)

- 1 고객 기반 확대
- 2 전문가 확보/훈련/유지
- 3 업무의 자동화 또는 현대화
- 4 다양화된 상품 개발
- 5 지점 설치의 자유화
- 6 이자율 책정의 자유화
- 7 일반경영정책 수립의 자유화
- 8 기타 (_____)

Q24. 귀 은행이 가계대출을 공여할때, 다음 중 무엇을 주로 고려하십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 부동산 담보
- 2 고객의 예금담보
- 3 고객의 신용상태
- 4 개인적인 친분관계
- 5 고객의 직업
- 6 고객의 보증인
- 7 기타 (_____)

***** 협조하여 주셔서 대단히 감사합니다 *****

[APPENDIX 6-3A] QUESTIONNAIRE FOR NBFIs (ENGLISH VERSION)

Dear The Head of Savings Department

How do you do ?

I am a student researching about "the competitive strategies among financial institutions in the household savings market in Korea" in order to pursue a doctoral degree in Stirling University in UK. As a part of the research, I am conducting this survey.

This questionnaire intends to obtain information related to your institution's operations in the household savings market and your knowledge on household customers. By answering the following questions you will help my research, and it will be expected to give you appreciate the overall conditions of your institution's operations.

Your opinions will remain strictly confidential, and no one other than the researcher will see and use it. Please send back this questionnaire to me by using the envelop included, after answering the questions. Your assistance will be very much appreciated.

Thank you very much !

Yours Sincerely,

Tebek Song

=====

***** Please put only one check mark in the space in front of any word or phrase describing an appropriate answer, unless the question contains any instructions.**

Q1. Which of these is your institution's strategy about savings (and related to) products in the household savings market ?

- 1 Provide all products permitted to deal with
- 2 Based on the choice of competitors, provide some of products permitted
- 3 Based on the market demand, choose some of products and provide them

Q2. Which of these is the main hindrance when launching a newly innovated savings (and related to) product ?

- 1 Excessive interference of the regulatory authorities
- 2 Lack of expert/technology
- 3 Doubt of market acceptance/demand due to the lack of market knowledge

Q3. If all FIs-HSM are allowed to deal with the other savings (and related to) products of competitors (eg. banks), which of these would be your institution's reaction ?

- 1 Immediately start to diversify in order to enlarge the product ranges
- 2 Follow the reaction of competitors
- 3 Keep the present range of products, and specialize the products dealt with
- 4 No idea at all at the present

Q4. How does your institution decide interest rates ?

- 1 Decide interest rates based on the maximum guideline of the regulatory authorities
- 2 Set interest rates based on competitors' decision
- 3 Decide interest rates based on the market condition within the maximum guideline

Q5. If interest rates of all FIs-HSM are liberalized from the interference of their regulatory authorities, what do you think would be the effect on your institution's operation ?

- 1 Increase operating costs and reduce profits
- 2 Reduce operating costs and increase profits
- 3 No idea at all at present

Q6. What is your institution's strategy for branching ?

- 1 Establish all branches up to the permitted numbers
- 2 Keep on the present number of branches, without establishing any new branch
- 3 No idea at all at present

Q7. Now FIs-HSM have installed CDs/ATMs, which of these do you agree with ?

- 1 They provide the speedy and convenient services to customers, so that those FIs-HSM which have CDs/ATMs will enjoy competitive advantage over others
- 2 They provide merely mechanical services, and annoy customers and those FIs-HSM which install because of their frequent break-down
- 3 They lessen work-load of counter staffs of FIs-HSM, so that the staffs can provide better customer services
- 4 They bring no difference in an operation of FIs-HSM

Q8. Which of these methods have your institution mainly adopted to increase an awareness of your institution and to promote your products ? (Please rank the methods listed below in their usage by your institution, write the number 1 for the most important method, 2 for the second one, and 3 for the third one)

- 1 Personal contact with customers
- 2 Television or radio advertisements
- 3 Newspaper or magazine advertisements
- 4 Pamphlet, signboard or outside advertisements
- 5 Provide promotional gift (eg. calender)
- 6 Sponsorship in some worthwhile events
- 7 Other (_____)

Q9. Which of these is the main promotional objectives of your institution ?

- 1 Promote corporate name/image
- 2 Increase customer awareness of products
- 3 Communicate the distinctive benefits of products to encourage trial of the products
- 4 Other (_____)

Q10. How long does your institution usually train the newly employed staff ?

- 1 More than 1 month
- 2 Less than 1 month
- 3 Not at all

Q11. Has your institution had different marketing strategies in order to attract more effectively different customer groups (eg. professionals, self-employed) ?

- 1 Somewhat
- 2 To a large extent
- 3 Not at all

Q12. Is your institution involved in customer research ?

- 1 __ Yes (go to Q13)
- 2 __ No (go to Q14)

Q13. Which of these is your institution's objectives of conducting customer research ?

- 1 __ Evaluate of customer preference/attitudes about FIs-HSM or/and products
- 2 __ Measure the awareness of products
- 3 __ Evaluate the quality of customer services acknowledged by customers
- 4 __ Other (_____)

*** Continue to Q15 ***

Q14. What is the main reasons for not conducting any customer research ?

- 1 __ Unnecessary
- 2 __ Too expensive
- 3 __ Not easy to conduct because of the lack of expert
- 4 __ Other (_____)

*** Continue the following questions ***

*** Please pick up the most suitable answers - either two or three - as provided the guideline of following questions from 15 to 22, and write the number "1", "2" or "3" next to the answer in the sequences of their importance.

Q15. What do you think are the main strengths of your institution comparing with banks in the household savings market ? (Choose two answers, and write 1 for the first one, and then 2)

- 1 __ Strong customer relationship
- 2 __ Better profitability provided
- 3 __ Well-located branches/places
- 4 __ Superior atmosphere of institution
- 5 __ Specialized products had
- 6 __ Other (_____)

Q16. What do you think are the main weaknesses of your institution comparing with banks in the household savings market ? (Choose two answers, and write 1 for the first one, and then 2)

- 1 __ Narrow range of products permitted
- 2 __ Inferior profitability
- 3 __ Narrow customer base
- 4 __ Restricted geographic coverage/branches
- 5 __ Inferior atmosphere of institution
- 6 __ Other (_____)

Q17. Which of these has your institution regarded as main competitors of your institution in the household savings market ? (Choose two answers, and write 1 for the first one, and then 2)

- 1 Nationwide commercial banks/specialized banks
- 2 Local banks
- 3 Investment trust companies
- 4 Mutual savings and finance companies
- 5 Credit (or Unit) cooperatives, Postal savings
- 6 Other financial institutions

Q18. Which of these do you think would be the household customers' main purposes of savings ? (Choose two answers and write 1 for the first one and 2 for the second one)

- 1 To prepare future uncertainty or disease
- 2 To meet children's education
- 3 To insure elderly life
- 4 To buy house or real estate
- 5 To buy household goods (eg. car, furniture ...)
- 6 To increase household wealth in general
- 7 For other (eg. repayment of borrowing, holiday, marriage of child, bequest ...)

Q19. Which of these attributes has your institution mainly tried to provide household customers in order to attract and sustain them in your institution ? (Choose three answers, and write 1 for the first one, and then 2 and 3)

- 1 Speed of deposit-taking and withdrawal process
- 2 Wide coverage of branch networks
- 3 Superior atmosphere of institution
- 4 Enhanced reputation of trust and safety
- 5 Friendly customer service of the staff
- 6 Enlarge the product ranges for household savings
- 7 Automatic grant of household loans on savings account
- 8 Superior profitability
- 9 Convenient location

Q20. Which of these requirements do you think would be important to induce households to change a FIs-HSM ? (Choose three answers, and write 1 for the first important one, and then 2 and 3)

- 1 Slow speed of deposit-taking and withdrawal process
- 2 Inconvenient location(s) of FIs-HSM
- 3 Deteriorated atmosphere
- 4 Deteriorated the reputation on trust and safety
- 5 Provided the old-fashioned products
- 6 Inferior profitability provided
- 7 Deteriorated customer services provided

Q21. Which of these do you think are required by your institution in order to develop/expand further ? (Choose three answers, and write 1 for the first one, and then 2 and 3)

- 1 __ Enlarge customer base
- 2 __ Recruit/train/sustain expert
- 3 __ Enlarge/up-date technology adopted
- 4 __ Develop/diversify products
- 5 __ Be freed branching policy from the regulation
- 6 __ Be relaxed interest rates from the regulation
- 7 __ Be freed the management interference from the outsider/regulation
- 8 __ Other (_____)

Q22. Which of these do your institution mainly consider as granting household loans ? (Choose two answers, and write 1 for the most important one and 2 for the second important one)

- 1 __ Conditions of real estate collateral
- 2 __ Personal savings as collateral
- 3 __ Credibility of borrower
- 4 __ Personal relationship
- 5 __ Occupation of borrower
- 6 __ Person who has suretyship of borrower
- 7 __ Other (_____)

***** Thank you for your help and cooperation !!! *****

(!) = Question 22 is not included in the questionnaire used for survey of investment trust companies, because they are not allowed to grant personal loans.

[APPENDIX 6-3B] QUESTIONNAIRE FOR NBFIs (KOREAN VERSION)

저축부장님 귀하

안녕하십니까 ?

저는 "가계저축시장에서 경쟁적인 이점을 확보하기 위한 한국 금융기관의 차별화전략"이란 주제로 영국의 스타링대학교에서 박사과정을 공부하고 있는 학생입니다.

그 연구의 한부분으로서, 이 조사가 채택되었습니다.

본 설문지는 부장님의 고견을 통하여 가계저축시장에서의 귀 금융기관의 영업활동과 귀 금융기관의 가계고객에 대한 일반 지식을 얻고자 합니다.

이 설문지에 응답하심으로써, 부장님께서 제 연구에 도움을 주실뿐만 아니라, 귀 금융기관의 전반적인 영업활동상태의 평가가 가능할것이라 사려 됩니다.

응답하여 주신 내용들은 절대 비밀에 부쳐지며, 본 연구목적으로만 사용될 것 입니다. 첨부된 반송우편봉투를 사용 하여, 이 설문지를 반송하여 주십시오.

부장님의 협조에 대단히 감사를 드립니다.

송 태 백

※※※ 질문에 특별히 다른 지시가 없는 한, 주어진 질문에 적당한 답을 하나만 골라 주어진 빈 칸에 표시 (X) 를 하십시오.

Q1. 가계저축시장에서의 저축 (관련) 상품에 대한 귀 금융기관의 전략은 다음 중 어느것 인니까 ?

- 1 허가된 모든 저축 (관련) 상품을 취급
- 2 경쟁상대와 보조를 맞추어, 상품을 취급
- 3 시장수요에 기증하여, 상품을 취급

Q2. 귀 금융기관이 새로운 저축 (관련) 상품을 개발하여 시장에 선보이는데 제약을 주는 주요인은 무엇입니까 ?

- 1 감독관청의 지나친 간섭
- 2 전문인력과 기술의 부족
- 3 시장지식 부족으로 시장수용 또는 수요에 대한 회의성

Q3. 만약 모든 금융기관이 다른 경쟁금융기관의 저축 (관련) 상품을 다투는것이 자유로이 허용된다면, 귀 금융기관은 어떻게 하시겠습니까 ?

- 1 즉시, 취급하는 저축 (관련) 상품의 범위를 확대, 다양화
- 2 경쟁금융기관의 반응을 따른다
- 3 현재의 취급하는 상품 범위를 유지하며, 그 분야에서 전문화
- 4 잘 모르겠다

- Q4. 귀 금융기관은 지급/수수이자율을 어떻게 결정하고 있습니까 ?
- 1 절대적으로 감독관청이 예시한 최고 이자율에 맞추어 결정
 - 2 경쟁금융기관의 결정에 기준을 두고 결정
 - 3 시장조건에 초점을 두고 감독관청의 예시한 최고이자율 한도내에서 결정
- Q5. 모든 금융기관의 이자율이 자율화된다면, 귀 금융기관의 운영에 어떠한 영향을 준다고 생각하십니까 ?
- 1 운영비용이 증가되고, 이윤이 축소
 - 2 운영비용이 축소되고, 이윤이 증가
 - 3 잘 모르겠다
- Q6. 지점망/영업소에 대한 귀 금융기관의 전략은 무엇입니까 ?
- 1 최대한 허가된 갯수의 지점을 설치
 - 2 현재의 지점망을 유지한다
 - 3 잘 모르겠다
- Q7. 현재 금융기관들이 현금지급기울 설비하고 있는데, 이에 대한 귀하의 의견은 ?
- 1 현금지급기는 고객에게 신속하고 편리한 서비스들 제공한다. 따라서, 그것을 설치한 금융기관들은 다른 금융기관들에 비교하여 경쟁적 이익을 누릴 것이다
 - 2 현금지급기는 고객에게 단순한 기계적 서비스만 제공하고 잦은 고장으로 인해 오히려 설치한 금융기관들을 귀찮게 한다
 - 3 현금지급기는 금융기관 직원들의 업무를 덜어줌으로서, 직원들의 고객서비스를 향상시킨다
 - 4 금융기관 경영에 별 차이를 주지 않는다
- Q8. 귀 금융기관은 귀 금융기관을 널리 알리고 귀 금융기관의 금융상품의 판매를 촉진시키기위해 주로 어떤 방법을 이용합니까 ? (가장 적절한 답 3 개를 골라 그 중요한 순서대로 1, 2, 3 을 표기하십시오)
- 1 고객들과의 개인적 접촉
 - 2 TV 또는 라디오 광고
 - 3 신문, 잡지 광고
 - 4 팜플렛, 게시판 또는 옥외 광고
 - 5 선물 (예: 달력) 제공
 - 6 일반행사의 지원
 - 7 기타 (_____)
- Q9. 귀 금융기관의 홍보전략의 주요한 목적은 무엇입니까 ?
- 1 금융기관의 이미지와 이름 홍보
 - 2 금융상품에 대한 고객의 인식을 높인다
 - 3 금융상품사용의 이점을 홍보하고, 고객의 사용을 유도
 - 4 기타 (_____)

Q10. 귀 금융기관의 신입사원 훈련기간은 ?

- 1 1 개월 이상
- 2 1 개월 미만
- 3 없다

Q11. 귀 금융기관은 세분화된 고객층들 (예: 전문직업인, 봉급생활자)을 효과적으로 귀 금융기관으로 유치하기 위하여 어느정도의 차별화된 시장전략을 그들에게 실행하고 있습니까 ?

- 1 약간
- 2 상당한 수준의 범위에서
- 3 전혀 없다

Q12. 귀 금융기관 시장, 고객조사들 하고 있습니까 ?

- 1 예 (여기에 답하였으면, 13 번 질문으로 가십시오)
- 2 아니오 (여기에 답하였으면, 14 번 질문으로 가십시오)

Q13. 귀 금융기관이 시장, 고객조사들 하는 이유는 ?

- 1 고객의 선호도나 태도를 평가하기 위해
- 2 금융상품에 대한 인식도를 평가
- 3 고객서비스 정도에 대한 고객들의 인식도 평가
- 4 기타 (_____)

***** 15 번 질문으로 가십시오 *****

Q14. 귀 금융기관이 시장, 고객조사에 하지않는 이유는 ?

- 1 필요없다고 생각해서
- 2 비용이 너무 많이 들어서
- 3 전문가의 부족으로 시도하기가 쉽지 않아서
- 4 기타 (_____)

***** 15 번 부터 22 번 질문에서, 질문의 지시에 따라 가장 적절한 답을 2 개 내지 3 개를 골라 그 중요한 순서대로 1, 2, 3 을 표기하십시오.

Q15. 가계저축시장에서 은행들과 비교하여, 귀 금융기관의 주요 장점은 무엇이라고 생각하십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 고객과의 긴밀한 관계
- 2 높은 수익성
- 3 적절한 장소에 위치 (지점 등)
- 4 좋은 분위기
- 5 특성화된 금융상품 취급
- 6 기타 (_____)

Q16. 가계저축시장에서 은행과 비교할 때, 귀 금융기관의 주요 취약점은 무엇이라고 보십니까? (2 개를 골라 1 과 2 들 표기)

- 1 좁은 금융상품의 취급
- 2 낮은 수익성
- 3 좁은 고객층
- 4 제한된 영업구역
- 5 열악한 분위기
- 6 기타 (_____)

Q17. 가계저축시장에서 귀 금융기관의 주요 경쟁상대는? (2 개를 골라 1 과 2 들 표기)

- 1 일반시중은행/특수은행
- 2 지방은행
- 3 투자신탁회사
- 4 단위 농,수,축협/우체국 저축
- 5 기타 금융기관

Q18. 가계고객의 주요한 가계저축 목적은 다음 중 어느 것이라고 생각하십니까? (2 개를 골라 1 과 2 들 표기)

- 1 미래의 예기치 않은 일이나 질병에 대비
- 2 자녀의 교육비 마련
- 3 노후생활 대비
- 4 집이나 부동산 마련
- 5 가구용품 마련 (차, 가구 등)
- 6 전반적으로 부유한 생활을 위해
- 7 기타 (차용금 상환, 휴가, 자녀결혼 준비, 유산마련 등)

Q19. 가계고객을 귀 금융기관으로 유도하고 그들이 계속해서 귀 금융기관을 이용하게끔 하기 위하여, 귀 금융기관은 주로 다음의 어떠한 점을 중요시합니까? (3 개를 골라 1, 2, 3 들 표기)

- 1 예금과 인출 절차의 신속성
- 2 넓은 지점망 확보
- 3 쾌적한 분위기 조성
- 4 신용과 안전성에 대한 신뢰감 확보
- 5 친절한 고객 서비스 제공
- 6 가계저축상품의 취급 확대
- 7 가계저축과 관련하여 가계대부의 확대
- 8 높은 이자율 제공
- 9 사용에 편리한 장소에 위치

Q20. 가계고객들이 금융기관을 바꾸는 요인은 무엇이라고 생각하십니까? (3 개를 골라 1, 2, 3 들 표기)

- 1 예금과 인출 절차의 느린 속도
- 2 사용에 불편한 장소에 위치
- 3 기관의 분위기나 이용 고객들의 수준 저하
- 4 신용과 안전성에 대해 나빠진 평판
- 5 시대에 뒤떨어진 금융상품 취급
- 6 낮은 이자율
- 7 불친절한 고객 서비스

Q21. 귀 금융기관이 더욱 더 확장/발전하기 위해서는 다음 중 무엇이
요구된다고 생각하십니까 ? (3 개를 골라 1, 2, 3 를 표기)

- 1 고객 기반 확대
- 2 전문가 확보/훈련/유지
- 3 업무의 자동화 또는 현대화
- 4 다양화된 상품 개발
- 5 지점 설치의 자유화
- 6 이자율 책정의 자유화
- 7 일반경영정책 수립의 자유화
- 8 기타 (_____)

Q22. 귀 금융기관이 가계대출을 공여할때, 다음 중 무엇을 주로
고려하십니까 ? (2 개를 골라 1 과 2 를 표기)

- 1 부동산 담보
- 2 고객의 예금담보
- 3 고객의 신용상태
- 4 개인적인 친분관계
- 5 고객의 직업
- 6 고객의 보증인
- 7 기타 (_____)

*** 협조하여 주셔서 대단히 감사합니다 ***

(!) 투자신탁회사는 가계대출을 취급하지 않으므로, 질문 22는 투자신탁
회사를 대상으로 하는 설문지에서는 제외됨.

[APPENDIX 7-1] CROSSTABULATION OF THE SECONDARY PURPOSE OF SAVINGS
BY THE PRIMARY PURPOSE OF SAVINGS

No. response Row Column SECONDARY	%	PRIMARY				Row Total	
		Secure uncer- tainty	Educate child.	Ensure elderly life	Buy house estat.		Buy house goods., & Wealth
Secure future uncertainty		27 31.8 31.0	10 11.8 27.0	31 36.5 31.6	17 20.0 26.6	85 24.3	
Children's education		23 28.4 35.9	12 14.8 32.4	25 30.9 25.5	21 25.9 32.8	81 23.1	
Ensure elderly life		12 18.8 18.8	26 40.6 29.9	15 23.4 15.3	11 17.2 17.2	64 18.3	
Purchase a house or real estate		16 37.2 25.0	14 32.6 16.1	6 14.0 16.2	7 16.3 10.9	43 12.3	
Purchase household goods		8 23.5 12.5	10 29.4 11.5	4 11.8 10.8	12 35.3 12.2	34 9.7	
Accumulate wealth and Other purpos		5 11.6 7.8	10 23.3 11.5	5 11.6 13.5	15 34.9 15.3	8 18.6 12.5	43 12.3
Column total		64 18.3	87 24.9	37 10.6	98 28.0	64 18.3	350 100.0

Chi-square
93.773

D.F.
20

Significance
0.000

[APPENDIX 7-2] CROSSTABULATION OF THE PRIMARY PURPOSE OF SAVINGS OF HOUSEHOLDS BY*

AGE LEVEL

	Under 40	40 - 49	50 & Over	Combined
Secure uncertainty	19.1	19.0	17.1	18.4
Educate children	16.0	26.6	34.3	24.9
Ensure elderly life	3.7	12.7	15.7	10.0
Buy house/real estat	41.4	24.1	16.4	28.6
Household goods	14.8	7.6	5.0	9.7
Wealth/Other purpose	4.9	10.1	11.4	8.4
Total	100.0	100.0	100.0	
Combined	42.5	20.7	36.7	100.0

Chi-square : 50.957 Significance : 0.000
 Size of data : 381

HOUSEHOLD INCOME

	Under 1.0	1.0 - 2.0	Over 2.0	Combined
Secure uncertainty	13.9	23.6	12.2	18.1
Educate children	20.1	24.2	38.8	24.6
Ensure elderly life	6.8	11.8	14.3	10.2
Buy house/real estat	34.0	28.0	14.3	28.5
H.goods/Wealth/Other	25.0	12.4	20.4	18.6
Total	100.0	100.0	100.0	
Combined	40.7	45.5	13.8	100.0

Chi-square : 24.504 Significance : 0.002
 Size of data : 354

BUDGET PLANNER

	Husband	Wife	Hus.& wife	Combined
Secure uncertainty	17.3	25.0	12.4	18.5
Educate children	24.0	22.1	30.2	25.5
Ensure elderly life	9.6	13.6	7.0	10.2
Buy house/real estat	26.0	25.0	31.0	27.3
H.goods/Wealth/Other	23.1	14.3	19.4	18.5
Total	100.0	100.0	100.0	
Combined	27.9	37.5	34.6	100.0

Chi-square : 14.186 Significance : 0.077
 Size of data : 373

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-3] CROSSTABULATION OF THE HABIT OF SAVINGS BY THE RESIDENT PLACE

No.response Row % Column % THE HABIT OF SAVE.	RESIDENT PLACE			Row Total
	Seoul	5-big cities	Other areas	
Fixed amount reguarly	52 26.1 43.7	51 25.6 51.5	96 48.2 49.0	199 48.1
Unfixed amount reguarly	38 31.1 31.9	34 27.9 34.3	50 41.0 25.5	122 29.5
Unfixed amount irregularly	17 24.3 14.3	14 20.0 14.1	39 55.7 19.9	70 16.9
No savings	12 52.2 10.1		11 47.8 5.6	23 5.6
Column total	119 28.7	99 23.9	196 47.3	414 100.0

<u>Chi-square</u> 14.699	<u>D.F.</u> 6	<u>Significance</u> 0.0227
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[APPENDIX 7-4] CROSSTABLATION OF THE MAIN DEPOSIT PLACE OF HOUSEHOLD SAVINGS BY

	DMBs	NBFIs	Total	Combined
<u>AGE LEVEL*</u>				
Under 40	56.5	43.5	100.0	41.4
40 to 49	48.6	51.4	100.0	21.0
50 to 59	36.5	61.5	100.0	28.8
60 & over	75.9	24.1	100.0	8.7
Combined	51.4	48.6		100.0
<u>RESIDENT PLACE</u>				
Seoul	45.7	54.3	100.0	27.1
5-big cities	50.0	50.0	100.0	24.2
Other areas	53.9	46.1	100.0	48.7
Combined	50.7	49.3		100.0
<u>EDUCATIONAL GROUP</u>				
Under high sch.	56.5	43.5	100.0	18.5
High school	49.7	50.3	100.0	54.0
College and over	50.0	50.0	100.0	27.5
Combined	51.0	49.0		100.0
<u>OCCUPATIONAL GR.*</u>				
Self-emp./Other	52.9	47.1	100.0	33.9
Daily worker	75.0	25.0	100.0	10.4
Salary worker	48.1	51.9	100.0	34.5
Professional	36.9	63.1	100.0	21.2
Combined	50.2	49.8		100.0
<u>HOUSEHOLD INCOME*</u>				
Under 1.0 mn	59.4	40.6	100.0	41.4
1.0 to 1.5 mn	53.4	46.6	100.0	18.8
1.5 to 2.0 mn	40.0	60.0	100.0	25.9
2.0 mn & over	34.9	65.1	100.0	13.9
Combined	49.8	50.2		100.0
<u>BUDGET PLANNER</u>				
Husband	51.6	48.4	100.0	29.1
Wife	52.6	47.4	100.0	35.6
Husband & wife	50.4	49.6	100.0	35.3
Combined	51.5	48.5		100.0

*. Differences by age, occupation and income are statistically significant at the 0.05 level of probability.

[APPENDIX 7-5] CROSSTABULATION OF THE MAIN DEPOSIT PLACE OF SAVINGS
BY HOUSEHOLD INCOME LEVEL

No. response Row Column DEPOSIT PLACE	INCOME		Row Total
	Under 1.5 mn	Over 1.5 mn	
Nationwide commercial bank	39 69.6 18.8	17 30.4 12.0	56 16.0
Local bank	32 64.0 15.4	18 36.0 12.7	50 14.3
Specialized bank	36 75.0 17.3	12 25.0 8.5	48 13.7
Mutual saving and finance company	20 58.8 9.6	14 41.2 9.9	34 9.7
Credit cooperative	43 63.2 20.7	25 36.8 17.6	68 19.4
Investment trust company	9 27.3 4.3	24 72.7 16.9	33 9.4
Investment finance company	7 35.0 3.4	13 65.0 9.2	20 5.7
Investment in shares	8 47.1 3.8	9 52.9 6.3	17 4.9
Kye	14 58.3 6.7	10 41.7 7.0	24 6.9
Column total	208 59.4	142 40.6	350 100.0

<u>Chi-square</u> 28.290	<u>D.F.</u> 8	<u>Significance</u> 0.0004
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[APPENDIX 7-6] CROSSTABULATION OF THE MAIN DEPOSIT PLACE OF SAVINGS
BY THE RESIDENT PLACE

No.response Row Column DEPOSIT PLACE	RESIDENT PLACE			Row Total
	Seoul	5-big cities	Other areas	
Nationwide commercial bank	21 32.8 21.2	15 23.4 17.0	28 43.8 16.5	64 17.9
Local bank	5 8.9 5.1	15 26.8 17.0	36 64.3 21.2	56 15.7
Specialized bank	16 30.8 16.2	11 21.2 12.5	25 48.1 14.7	52 14.6
Credit coop., & Mutual sav finance co.	32 28.6 32.3	22 19.6 25.0	58 51.8 34.1	112 31.4
Invest.trust co. & Invest finance co.	18 32.7 18.2	19 34.5 21.6	18 32.7 10.6	55 15.4
Investment in shares	7 38.9 7.1	6 33.3 6.8	5 27.8 2.9	18 5.0
Column total	99 27.7	88 24.6	170 47.6	357 100.0

Chi-square D.F. Significance
21.442 10 0.018

Row Column	% %	Seoul	5-big cities	Other areas	Total
DMBs		24.4	23.8	51.7	100.0
		42.4	46.6	52.4	48.2
NBFIs		29.9	24.6	45.5	100.0
		50.5	46.6	44.7	46.8
Shares		38.9	33.3	27.8	100.0
		7.1	6.8	2.9	5.0
Column total		27.7	24.6	47.6	100.0
		100.0	100.0	100.0	357

[APPENDIX 7-7] CROSSTABULATION OF THE NUMBER OF FIS-HSM DEALT WITH BY THE OCCUPATION OF HOUSEHOLDS

No. response Row % Column % NO. OF FIS-HSM	OCCUPATION				Row Total
	Self- employ	Daily W. Other	Salary worker	Profes. worker	
One financial institution	13 18.1 16.3	10 13.9 17.9	35 48.1 33.0	14 19.4 21.5	72 23.5
Two financial institutions	27 24.5 33.8	22 20.0 39.3	30 27.3 28.3	31 28.2 47.7	110 35.8
Three financ. institutions	24 30.4 30.0	16 20.3 28.6	26 32.9 24.5	13 16.5 20.0	79 25.7
Four or more financial institutions	16 34.8 20.0	8 17.4 14.3	15 32.6 14.2	7 15.2 10.8	46 15.0
Column total	80 26.1	56 18.2	106 34.5	65 21.2	307 100.0

<u>Chi-square</u> 15.080	<u>D.F.</u> 9	<u>Significance</u> 0.089
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[APPENDIX 7-8] ANALYSIS OF VARIANCE OF THE SPEED OF DEPOSIT-TAKING AND WITHDRAWAL PROCESS*

[1] Age Level

Group	Count	Mean	S.D.
Under 39 years old	138	4.28	0.77
40 to 49 years old	70	4.23	0.85
50 or over	125	4.05	1.02
Total	333	4.18	0.89

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	3.79	1.89	2.3882	0.0934
Within groups	330	262.03	0.79		
Total	332	265.83			

[2] Educational Level

Group	Count	Mean	S.D.
Under high school	62	4.00	0.99
High school	181	4.28	0.86
Over college or univ.	92	4.14	0.87
Total	335	4.19	0.89

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	3.98	1.99	2.5238	0.0817
Within groups	332	261.79	0.79		
Total	334	265.77			

[3] Household's Income

Group	Count	Mean	S.D.
Under 1.0 mn Won	128	4.23	0.87
1.0 - 1.5 mn Won	58	4.41	0.65
1.5 mn Won & over	123	4.05	0.98
Total	309	4.19	0.89

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	5.53	2.76	3.5511	0.0299
Within groups	306	238.21	0.78		
Total	308	243.74			

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-9] ANALYSIS OF VARIANCE OF THE INTERNAL AND EXTERNAL ATMOSPHERE OF FIS-HSM BY*

[1] Age Level

Group	Count	Mean	S.D.
Under 39 years old	138	4.38	0.91
40 to 49 years old	70	4.17	0.95
50 or over	125	4.46	0.75
Total	333	4.37	0.86

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	3.89	1.95	2.6352	0.0732
Within groups	330	243.68	0.74		
Total	332	247.57			

[2] Educational Level

Group	Count	Mean	S.D.
Under high school	62	4.40	0.76
High school	181	4.46	0.85
Over college or univ.	92	4.20	0.92
Total	335	4.38	0.86

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	4.27	2.14	2.9264	0.0550
Within groups	332	242.34	0.73		
Total	334	246.61			

[3] Household's Income

Group	Count	Mean	S.D.
Under 0.5 mn Won	28	4.18	0.94
0.5 - 1.0 mn Won	100	4.59	0.74
1.0 - 1.5 mn Won	58	4.26	0.81
1.5 - 2.0 mn Won	80	4.36	0.83
2.0 mn Won & over	43	4.35	1.04
Total	309	4.40	0.85

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	4	6.37	1.59	2.2433	0.0644
Within groups	304	215.67	0.71		
Total	308	222.04			

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-10] ANALYSIS OF VARIANCE OF THE FRIENDLY CUSTOMER SERVICES PROVIDED BY FIS-HSM BY*

[1] Educational Level

Group	Count	Mean	S.D.
Under high school	62	4.48	0.81
High school	181	4.43	0.79
Over college or univ.	92	4.68	0.61
Total	335	4.51	0.75

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	3.98	1.99	3.5609	0.0295
Within groups	332	185.73	0.56		
Total	334	189.71			

[2] Household's Income

Group	Count	Mean	S.D.
Under 0.5 mn Won	28	4.61	0.74
0.5 - 1.0 mn Won	100	4.60	0.72
1.0 - 1.5 mn Won	58	4.45	0.75
1.5 - 2.0 mn Won	80	4.49	0.78
2.0 mn Won & over	43	4.21	0.86
Total	309	4.49	0.77

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	4	5.08	1.27	2.1688	0.0724
Within groups	304	178.13	0.59		
Total	308	183.21			

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-11] ANALYSIS OF VARIANCE OF THE RANGES OF SAVINGS PRODUCTS (AND RELATED) FOR HOUSEHOLDS BY*

[1] Educational Level

Group	Count	Mean	S.D.
Under high school	62	4.03	0.96
High school	181	4.09	0.95
Over college or univ.	92	3.62	1.08
Total	335	3.95	1.01

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	14.21	7.11	7.2586	0.0008
Within groups	332	325.02	0.98		
Total	334	325.24			

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-12] ANALYSIS OF VARIANCE OF THE POSSIBILITY TO GET HOUSEHOLD LOANS RELATED TO SAVINGS ACCOUNT BY*

[1] Resident Place

Group	Count	Mean	S.D.
Seoul	92	4.22	0.87
5-big cities	82	4.22	0.82
Other areas	165	4.42	0.76
Total	339	4.32	0.81

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	3.59	1.79	2.7657	0.0644
Within groups	336	218.00	0.65		
Total	338	221.59			

[2] Household's Income

Group	Count	Mean	S.D.
Under 0.5 mn Won	28	4.07	0.77
0.5 - 1.0 mn Won	100	4.44	0.73
1.0 - 1.5 mn Won	58	4.40	0.75
1.5 - 2.0 mn Won	80	4.30	0.86
2.0 mn Won & over	43	4.07	0.91
Total	309	4.31	0.81

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	4	6.21	1.55	2.4323	0.0476
Within groups	304	193.97	0.64		
Total	308	200.17			

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-13] ANALYSIS OF VARIANCE OF THE PROFITABILITY PROVIDED BY*

[1] Age Level

Group	Count	Mean	S.D.
Under 39 years old	138	4.21	0.88
40 to 49 years old	70	3.89	0.83
50 or over	125	4.07	0.90
Total	333	4.09	0.88

Source	D.F.	Sum Sq.	Mean Sq.	F-ratio	F-prob.
Between groups	2	4.95	2.48	3.2137	0.0415
Within groups	330	254.34	0.77		
Total	332	259.30			

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-14] CORRELATION ANALYSIS OF THE NINE ATTRIBUTES

- 1 = Speed of deposit-taking and withdrawal process
- 2 = Coverage of branch network
- 3 = Atmosphere of FIS-HSM
- 4 = Reputation of trust and safety
- 5 = Friendly customer services
- 6 = The ranges of savings (and related) products for households
- 7 = Possibility of getting household loans
- 8 = The profitability provided
- 9 = Convenient location

	1	2	3	4	5	6	7	8	9
1 :	1.00	-0.03	0.11	0.10	0.12	0.01	0.21	0.18	0.39
	-	0.32	0.03	0.03	0.01	0.42	0.00	0.00	0.00
2 :		1.00	-0.12	-0.04	-0.00	-0.05	-0.07	-0.00	0.03
		-	0.02	0.21	0.47	0.20	0.11	0.47	0.28
3 :			1.00	0.16	0.09	0.00	0.12	0.11	0.19
			-	0.01	0.05	0.46	0.01	0.02	0.00
4 :				1.00	0.09	-0.02	0.08	0.03	0.09
				-	0.05	0.35	0.07	0.29	0.05
5 :					1.00	0.02	0.17	0.06	0.36
					-	0.37	0.00	0.12	0.00
6 :						1.00	-0.08	-0.01	0.04
						-	0.08	0.41	0.24
7 :							1.00	0.04	0.10
							-	0.21	0.04
8 :								1.00	0.18
								-	0.00
9 :									1.00
									-

1. The upper figures are the correlation coefficients for each pair of variables.
2. The lower figures indicate the probability for assessing significance.

[APPENDIX 7-15] CROSSTABULATION OF THE PRIMARY FACTOR FOR CHANGING FIS-HSM BY THE MAIN FIS-HSM USED

FACTS	No. response		FIS-HSM		Row Total
	Row	%	DMBs	NBFIs	
	Column	%			
Slow deposit-taking and withdrawal process	9	52.9	8	47.1	17
	5.3		4.9		5.1
Inconvenient location of FIS-HSM	35	57.4	26	42.6	61
	20.6		15.9		18.3
Deteriorated atmosphere of FIS-HSM	28	49.1	29	50.9	57
	16.5		17.7		17.1
Deteriorated reputation of trust and safety	43	58.9	30	41.1	73
	25.3		18.3		21.9
Provided the old-fashioned products	16	42.1	22	57.9	38
	9.4		13.4		11.4
Inferior profitability provided	20	41.7	28	58.3	48
	11.8		17.1		14.4
Deteriorated customer services	19	47.5	21	52.5	40
	11.2		12.8		12.0
Column total	170	50.9	164	49.1	334
					100.0

Chi-square
5.994

D.F.
6

Significance
0.424

[APPENDIX 7-16] CROSSTABULATION OF THE REASONS OF THE PREFERENCE OF THE LENDER BY THE POTENTIAL BORROWING SOURCE

REASONS OF PREFER.	POTENTIAL BORROWING SOURCE			Row Total
	DMBs	NBFIs	Private	
Simple and fast way of borrowing	42 35.0 22.5	53 44.2 33.3	25 20.8 50.0	120 30.3
Connection with savings account had	62 55.4 33.2	50 44.6 31.4		112 28.3
Good interest rate charged	48 61.5 25.7	25 32.1 15.7	5 6.4 10.0	78 19.7
Personal relationship	21 45.7 11.2	18 39.1 11.3	7 15.2 14.0	46 11.6
Not required collateral	14 35.0 7.5	13 32.5 8.2	13 32.5 26.0	40 10.1
Column total	187 47.2	159 40.2	50 12.6	396 100.0

Chi-square
48.642

D.F.
8

Significance
0.000

[APPENDIX 7-17] CROSSTABULATION OF THE FUTURE CHANGE OF FIS-HSM BY THE OCCUPATION OF THE HOUSEHOLDER

No. response Row % Column % KIND OF FIS-HSM	OCCUPATION				Row Total
	Self- employ	Daily W. Other	Salary worker	Profes. worker	
Various/wide products offered	20 32.8 29.0	8 13.1 17.0	15 24.6 17.6	18 29.5 31.0	61 23.6
Specialised narrow product offered	10 20.4 14.5	8 16.3 17.0	15 30.6 17.6	16 32.7 27.6	49 18.9
Keep on use present one dealt with	39 26.2 56.5	31 20.8 66.0	55 36.9 64.7	24 16.1 41.4	149 57.5
Column total	69 26.6	47 18.1	85 32.8	58 22.4	259 100.0

<u>Chi-square</u> 11.516	<u>D.F.</u> 6	<u>Significance</u> 0.074
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[APPENDIX 7-18] CROSSTABULATION OF THE MAIN SAVINGS ACCOUNT BY*

RESIDENT PLACE

	Seoul or 5-big cities	Other areas	Combined
Time, Money in trust	8.7	12.8	10.7
Savings deposit	13.4	14.0	13.7
Instalment savings deposit	20.9	23.2	22.0
Mutual instalment deposit	25.0	32.9	28.9
Workman's property formatio	18.0	11.6	14.9
CMA/Beneficial certi./Other	14.0	11.6	9.8
Total	100.0	100.0	
Combined	51.2	48.8	100.0

Chi-square : 11.816 Significance : 0.037
 Size of data : 336

EDUCATIONAL LEVEL

	Under high.	High school	Over college	Combined
Time, Money in trust	18.0	10.0	7.7	10.8
Savings deposit	16.4	14.4	8.8	13.3
Instalment savings depos	13.1	26.7	19.8	22.3
Mutual instalment depos.	31.1	26.7	31.9	28.9
Workman's property form.	11.5	16.7	13.2	14.8
CMA/Beneficial certi./Ot	9.8	5.6	18.7	9.9
Total	100.0	100.0	100.0	
Combined	18.4	54.2	27.4	100.0

Chi-square : 22.194 Significance : 0.014
 Size of date : 332

*. Scores not significantly different for other demographic profile.

[APPENDIX 7-19] CROSSTABULATION OF THE MAIN SAVINGS ACCOUNT
 POSSESSED BY THE ATTRIBUTES AFFECTING ON THE
 CHOICE OF THE ACCOUNT

No. response Row % Column % MAIN ACCOUNT	ATTRIBUTES				Row Total
	Profit- ability	Safety	Easy dep. withdraw	Person. loans	
Time deposit,	8	14	7	7	36
Money in trust	22.2	38.9	19.4	19.4	
trust	14.0	15.9	7.8	8.3	11.3
Savings deposit	14	19	27	8	68
Beneficial cert	20.6	27.9	39.7	11.8	
and The CMA	24.6	21.6	30.0	9.5	21.3
Instalment savin	20	41	49	55	165
Mutual instalme	12.2	24.8	29.7	33.3	
deposit	35.1	46.6	54.4	65.5	51.7
Workman's proper	15	14	7	14	50
formation	30.0	28.0	14.0	28.0	
deposit	26.3	15.9	7.8	16.7	15.7
Column total	57 17.9	88 27.6	90 28.2	84 26.3	319 100.0

Chi-square
27.079

D.F.
9

Significance
0.001

[APPENDIX 7-20] ASPECTS ABOUT PRODUCTS

(Q-1) Product ranges

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
All product permit.	(8)	(11)	95.0	(5)	100.0	100.0
Based on competitors	(0)	(1)	5.0	(0)	0.0	0.0
Market demands	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(38)

(Q-2) Main hindrance of launching new products

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Regulatory interfer.	(4)	(8)	60.0	(2)	75.9	59.0
Lack of expert/tech.	(4)	(2)	30.0	(1)	24.1	41.0
Doubt of market acce.	(0)	(2)	10.0	(2)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(39)

(Q-3) The liberalization of product ranges

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Diversify/start new	(5)	(7)	60.0	(2)	93.1	46.2
Follow competitors	(0)	(5)	25.0	(1)	6.9	41.0
Keep present ones	(3)	(0)	15.0	(1)	0.0	12.8
No idea at all	(0)	(0)	0.0	(1)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(39)

[APPENDIX 7-21] ASPECTS ABOUT INTEREST RATES

(Q-4) The decision of interest rates

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Based on guideline	(7)	(8)	75.0	(0)	69.0	78.6
Based on competitors	(0)	(3)	15.0	(2)	17.2	16.7
Market conditions	(1)	(1)	10.0	(3)	13.8	4.8
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

(Q-5) The liberalization of interest rates

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Increase costs	(5)	(6)	55.0	(1)	75.0	64.3
Reduce costs	(1)	(6)	35.0	(4)	25.0	14.3
No idea at all	(2)	(0)	10.0	(0)	0.0	21.4
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(28)	(42)

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[APPENDIX 7-22] ASPECTS ABOUT DELIVERY SYSTEMS

(Q-6) The policy about branching

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
All branches permit.	(8)	(11)	95.0	(5)	93.1	73.2
Keep present ones	(0)	(1)	5.0	(0)	6.9	22.0
Consolid./Rationalize	(0)	(0)	0.0	(0)	0.0	4.9
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(41)

(Q-7) Impact of the installation of CDs and ATMs

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Competitive advantage	(2)	(4)	30.0	(2)	72.4	50.0
Mechanical services	(2)	(3)	25.0	(1)	17.2	21.4
Better customer serv.	(2)	(5)	35.0	(2)	10.3	28.6
No difference	(2)	(0)	10.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

[APPENDIX 7-23] ASPECTS ABOUT PROMOTIONS

(Q-8) Promotion instruments of financial institutions

Second choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Personal contact	(1)	(4)	25.0	(1)	27.6	11.9
TV & radio advertise.	(0)	(1)	5.0	(1)	6.9	7.1
Newspaper/magazine ad.	(1)	(3)	20.0	(0)	6.9	19.0
Pamphlet/signboard/out.	(2)	(2)	20.0	(2)	31.0	28.6
Promotional gift	(1)	(1)	10.0	(1)	24.1	26.2
Sponsorship	(3)	(1)	20.0	(0)	3.4	7.1
Other	(0)	(1)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

Third choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Personal contact	(1)	(1)	10.0	(1)	24.1	3.6
TV & radio advertise.	(2)	(2)	20.0	(0)	3.4	14.3
Newspaper/magazine ad.	(2)	(1)	15.0	(2)	24.1	21.4
Pamphlet/signboard/out.	(1)	(2)	15.0	(0)	13.8	21.4
Promotional gift	(2)	(6)	40.0	(1)	27.6	25.0
Sponsorship	(0)	(0)	0.0	(1)	6.9	14.3
Other	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(28)

Multiple choices	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Personal contact	25.0	13.9	18.3	26.7	26.4	31.3
TV & radio advertise.	12.5	11.1	11.7	6.7	6.9	6.3
Newspaper/magazine ad.	16.7	16.7	16.7	13.3	16.1	16.1
Pamphlet/signboard/out.	16.7	30.6	25.0	33.3	25.3	21.4
Promotional gift	12.5	19.4	16.7	13.3	21.8	18.8
Sponsorship	16.7	5.6	10.0	6.7	3.4	6.3
Other	0.0	2.8*	1.7*	0.0	0.0	0.0
	100.0	100.0	100.0	100.0	100.0	100.0
	(24)	(36)	(60)	(15)	(87)	(112)

* = Campaign in the street

(Q-9) Promotional objectives of financial institutions

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Corporate name/image	(6)	(9)	75.0	(3)	79.3	55.3
Awareness of products	(2)	(2)	20.0	(0)	13.8	31.6
Communicate benefits	(0)	(1)	5.0	(2)	6.9	13.2
Other	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(38)

[APPENDIX 7-24] TRAINING OF NEWLY EMPLOYED STAFFS

(Q-10)

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
More than 1 month	(5)	(3)	40.0	(1)	62.1	56.4
Less than 1 month	(3)	(9)	60.0	(4)	37.9	30.8
Not at all	(0)	(0)	0.0	(0)	0.0	12.8
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(39)

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[APPENDIX 7-25] DEGREE OF MARKET SEGMENTATION

(Q-11)

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Somewhat	(3)	(7)	50.0	(4)	20.7	18.9
To a large extent	(1)	(1)	10.0	(0)	0.0	0.0
Not at all	(4)	(4)	40.0	(1)	79.3	81.1
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(37)

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[APPENDIX 7-26] CUSTOMER RESEARCH

(Q-12) Is customer research involved ?

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Yes	(5)	(8)	65.0	(1)	13.8	16.7
No	(3)	(4)	35.0	(4)	86.2	83.3
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

(Q-13) Objectives of customer research

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Customer preference	(2)	(5)	53.8	(0)	0.0	0.0
Awareness of services	(2)	(2)	30.8	(0)	0.0	0.0
Quality of services	(1)	(1)	15.4	(1)	100.0	100.0
Other	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(5)	(8)	(13)	(1)	(4)	(7)

(Q-14) The reasons do not conduct customer research

	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Unnecessary	(1)	(2)	42.9	(1)	16.7	52.9
Too expensive	(1)	(1)	28.6	(0)	33.3	29.4
Lack of expert	(1)	(1)	28.6	(1)	50.0	17.6
Other	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(3)	(4)	(7)	(2)	(24)	(34)

[APPENDIX 7-27] SELF-ASSESSMENT OF THEIR STRENGTHS

(Q-15) Strengths of FIs-HSM over banks

Second choice		LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Customer relationship	(2)	(0)	10.0	(0)	24.1	19.0	
Profitability	(1)	(4)	25.0	(1)	6.9	28.6	
Well-located place	(2)	(1)	15.0	(0)	20.7	21.4	
Atmosphere of FIs-HSM	(2)	(4)	30.0	(1)	24.1	23.8	
Expert (*)	(0)	(3)	15.0	(3)	10.3	0.0	
Other (#)	(1)	(0)	5.0	(0)	13.8	7.1	
			100.0		100.0	100.0	
	(8)	(12)	(20)	(5)	(29)	(42)	

Multiple choices		LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Customer relationship	18.8	8.3	12.5	0.0	19.0	17.9	
Profitability	6.3	20.8	15.0	40.0	15.5	41.7	
Well-located place	50.0	37.5	42.5	0.0	25.9	14.3	
Atmosphere of FIs-HSM	18.8	20.8	20.0	10.0	20.7	22.6	
Expert (*)	0.0	12.5	7.5	40.0	5.2	0.0	
Other (#)	6.3	0.0	2.5	10.0	13.8	3.6	
	100.0	100.0	100.0	100.0	100.0	100.0	
	(16)	(24)	(48)	(10)	(58)	(84)	

*. Specialized products had is used for ITCs/MSFCs/CCs, instead of expert.

#. All FIs-HSM which choose other said their speedy service.

(Q-16 of DMBs) Strengths of DMBs over NBFIs

	Second choice			Multiple choices		
	LBs	NBBs	DMBs	LBs	NBBs	DMBs
Degree of credibility	(1)	(0)	5.3	12.5	30.4	23.1
Wide customer base	(1)	(1)	10.5	25.0	8.7	15.4
Range of products	(3)	(4)	36.8	25.0	26.1	25.6
Atmosphere of FIs-HSM	(0)	(4)	21.1	6.3	17.4	12.8
Coverage of branches	(3)	(2)	26.3	31.3	13.0	20.5
Other	(0)	(0)	5.0	0.0	4.3	2.6
			100.0	100.0	100.0	100.0
	(8)	(11)	(19)	(16)	(23)	(39)

[APPENDIX 7-28] SELF-ASSESSMENT OF THEIR WEAKNESSES

(Q-17 of DMBs) Weaknesses of DMBs over other banks

	Second choice			Multiple choices		
	LBs	NBBs	DMBs	LBs	NBBs	DMBs
Coverage of branches	(1)	(3)	20.0	50.0	25.0	35.0
Customer base/relati.	(2)	(3)	25.0	18.8	20.8	20.0
Atmosphere of FIs-HSM	(2)	(2)	20.0	12.5	29.2	22.5
Lack of expert	(3)	(2)	25.0	18.8	12.5	15.0
Other (*)	(0)	(2)	10.0	0.0	12.5	7.5
			100.0	100.0	100.0	100.0
	(8)	(12)	(20)	(16)	(24)	(40)

*. Inferior profitability providing

(Q-18 of DMBs) Weaknesses of DMBs over NBFIs

	Second choice			Multiple choice		
	LBs	NBBs	DMBs	LBs	NBBs	DMBs
Inferior profitabili.	(1)	(1)	10.0	50.0	50.0	50.0
Management interfer.	(3)	(4)	35.0	25.0	16.7	20.0
Relaxed customer rel.	(3)	(3)	30.0	18.8	12.5	15.0
Slow customer service	(1)	(4)	25.0	6.3	20.8	15.0
Other	(0)	(0)	0.0	0.0	0.0	0.0
			100.0	100.0	100.0	100.0
	(8)	(12)	(20)	(16)	(24)	(40)

(Q-16 of the NBFIs) Weaknesses of NBFIs over DMBs

	Second choice			Multiple choices		
	ITCs	MSFCs	CCs	ITCs	MSFCs	CCs
Narrow range of prod.	(2)	20.7	20.0	40.0	29.3	18.3
Inferior profitability	(0)	13.8	10.0	0.0	8.6	11.0
Narrow customer base	(0)	6.9	17.5	0.0	8.6	23.2
Geographic coverage	(2)	44.8	40.0	50.0	36.2	32.9
Atmosphere of FIs-HSM	(0)	6.9	12.5	0.0	10.3	12.2
Other	(1)	6.9	0.0	10.0	6.9	2.4
		100.0	100.0	100.0	100.0	100.0
	(5)	(27)	(40)	(10)	(56)	(82)

[APPENDIX 7-29] MAIN COMPETITORS OF FIS-HSM

(Q-19 of DMBs and Q-17 of NBFIs)

Second choice	LBS	NBBs	DMBs	ITCs	MSFCs	CCs
NBBs	(0)	(0)	0.0	(1)	33.3	23.1
Local banks	(1)	(2)	15.8	(1)	22.2	12.8
Investment trust cos.	(4)	(7)	57.9	(1)	11.1	12.8
MSFCs	(2)	(1)	15.8	(1)	25.9	46.2
Credit cooperatives	(0)	(2)	10.5	(0)	7.4	5.1
Other FIS-HSM	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(7)	(12)	(19)	(4)	(29)	(39)

Multiple choices	LBS	NBBs	DMBs	ITCs	MSFCs	CCs
NBBs	26.7	45.8	38.5	33.3	21.4	14.8
Local banks	6.7	8.3	7.7	11.1	12.5	9.9
Investment trust cos.	33.3	33.3	33.3	44.4	41.1	25.9
MSFCs	20.0	4.2	10.3	11.1	21.4	39.5
Credit cooperatives	13.3	8.3	10.3	0.0	3.6	9.9
Other FIS-HSM	0.0	0.0	0.0	0.0	0.0	0.0
	100.0	100.0	100.0	100.0	100.0	100.0
	(15)	(24)	(39)	(9)	(58)	(81)

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[APPENDIX 7-30] UNDERSTANDING SAVINGS PURPOSES OF HOUSEHOLDS BY FIS-HSM (Q-20 of DMBs and Q-18 of NBFIs)

Second choice	LBS	NBBs	DMBs	ITCs	MSFCs	CCs
Prepare uncertainty	(1)	(1)	10.0	(0)	10.3	4.8
Children's education	(1)	(1)	10.0	(1)	10.3	2.4
Ensure elderly life	(2)	(4)	30.0	(1)	20.7	26.2
Buy house/real estate	(1)	(3)	20.0	(1)	17.2	19.0
Buy household goods	(1)	(1)	10.0	(0)	10.3	11.9
Increase wealth	(1)	(1)	10.0	(1)	13.8	14.3
Others	(1)	(1)	10.0	(1)	17.2	21.4
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(42)

Multiple choices	LBS	NBBs	DMBs	ITCs	MSFCs	CCs
Prepare uncertainty	12.5	8.3	10.0	10.0	12.1	7.1
Children's education	18.8	16.7	17.5	20.0	17.2	15.5
Ensure elderly life	18.8	20.8	20.0	20.0	19.0	20.2
Buy house/real estate	18.8	25.0	22.5	20.0	19.0	21.4
Buy household goods	12.5	12.5	12.5	0.0	10.3	9.5
Increase wealth	12.5	12.5	12.5	20.0	13.8	15.5
Others	6.3	4.2	5.0	10.0	8.6	10.7
	100.0	100.0	100.0	100.0	100.0	100.0
	(16)	(24)	(40)	(10)	(58)	(84)

[APPENDIX 7-31] THE METHODS IMPROVING COMPETITIVE POSITION(S) IN
HSM (Q-21 of DMBs and Q-19 of NBFIs)

Second choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Speedy process	(0)	(2)	10.0	(1)	6.9	7.3
Coverage of branches	(1)	(2)	15.0	(0)	13.8	19.5
Atmosphere of FIS-HSM	(0)	(1)	5.0	(0)	10.3	7.3
Trust and safety	(0)	(0)	0.0	(0)	0.0	2.4
Customer services	(3)	(3)	30.0	(1)	27.6	24.4
Range of products	(0)	(1)	5.0	(1)	13.8	9.8
Loans on savings	(4)	(0)	20.0	(0)	13.8	19.5
Profitability	(0)	(2)	10.0	(1)	10.3	7.3
Convenient location	(0)	(1)	5.0	(1)	3.4	2.4
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(41)

Third choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Speedy process	(0)	(0)	0.0	(0)	3.7	5.1
Coverage of branches	(1)	(1)	10.0	(0)	7.4	10.3
Atmosphere of FIS-HSM	(1)	(2)	15.0	(1)	14.8	10.3
Trust and safety	(1)	(1)	10.0	(1)	11.1	7.7
Customer services	(2)	(0)	10.0	(0)	11.1	15.4
Range of products	(0)	(3)	15.0	(2)	3.7	12.8
Loans on savings	(1)	(2)	15.0	(0)	22.2	12.8
Profitability	(2)	(2)	20.0	(1)	22.2	20.5
Convenient location	(0)	(1)	5.0	(0)	3.7	5.1
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(27)	(39)

Multiple choices	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Speedy process	0.0	5.6	3.3	6.7	7.1	5.7
Coverage of branches	8.3	8.3	8.3	0.0	7.1	11.5
Atmosphere of FIS-HSM	4.2	8.3	6.7	13.3	12.9	8.2
Trust and safety	8.3	5.6	6.7	13.3	9.4	7.4
Customer services	20.8	11.1	15.0	6.7	14.1	18.0
Range of products	0.0	11.1	6.7	26.7	7.1	7.4
Loans on savings	20.8	5.6	11.7	0.0	11.8	10.7
Profitability	12.5	11.1	11.7	13.3	10.6	10.7
Convenient location	25.0	33.3	30.0	20.0	20.0	20.5
	100.0	100.0	100.0	100.0	100.0	100.0
	(24)	(36)	(60)	(15)	(85)	(122)

[APPENDIX 7-32] AWARENESS BY FIS-HSM ABOUT THE ATTRIBUTES MAKING HOUSEHOLDS TO CHANGE THE PRESENT FIS-HSM USED
(Q-22 of DMBs and Q-20 of NBFIs)

Second choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Slow speed of process	(1)	(2)	15.0	(0)	17.9	9.8
Inconvenient location	(1)	(1)	10.0	(1)	10.7	19.5
Deteriorated atmosphe.	(0)	(0)	0.0	(0)	0.0	0.0
Deteriorated trust	(1)	(2)	15.0	(1)	3.6	7.3
Old-fashioned products	(0)	(2)	10.0	(1)	17.9	14.6
Inferior profitabilit.	(4)	(4)	40.0	(1)	28.6	36.6
Deteriorated services	(1)	(1)	10.0	(1)	21.4	12.2
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(28)	(41)

Third choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Slow speed of process	(1)	(1)	10.0	(1)	7.7	12.8
Inconvenient location	(1)	(3)	20.0	(1)	11.5	12.8
Deteriorated atmosphe.	(2)	(1)	15.0	(1)	11.5	17.9
Deteriorated trust	(1)	(0)	5.0	(0)	7.7	5.1
Old-fashioned products	(2)	(1)	15.0	(0)	7.7	12.8
Inferior profitabilit.	(0)	(3)	15.0	(1)	30.8	17.9
Deteriorated services	(1)	(3)	20.0	(0)	23.1	20.5
			100.0		100.0	100.0
	(8)	(12)	(20)	(4)	(26)	(39)

Multiple choices	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Slow speed of process	12.5	13.9	13.3	14.3	12.0	12.3
Inconvenient location	12.5	13.9	13.3	14.3	9.6	14.8
Deteriorated atmosphe.	8.3	2.8	5.0	7.1	3.6	5.7
Deteriorated trust	8.3	5.6	6.7	7.1	3.6	4.1
Old-fashioned products	16.7	19.4	18.3	21.4	22.9	20.5
Inferior profitabilit.	20.8	25.0	23.3	14.3	27.7	23.0
Deteriorated services	20.8	19.4	20.0	21.4	20.5	19.7
	100.0	100.0	100.0	100.0	100.0	100.0
	(24)	(36)	(60)	(14)	(83)	(122)

[APPENDIX 7-33] REQUIREMENTS FOR THE FUTURE DEVELOPMENT OF
 FIS-HSM (Q-23 of DMBs and Q-21 of NBFIs)

Second choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Enlarge customer base	(0)	(0)	0.0	(2)	14.3	12.8
Recruit/train expert	(0)	(0)	0.0	(0)	13.8	10.3
Enlarge/up date tech.	(1)	(3)	20.0	(0)	6.9	25.6
Develop products	(1)	(4)	25.0	(0)	13.8	25.6
Freely open branches	(5)	(1)	30.0	(1)	44.8	12.8
Relaxed interest rate	(0)	(3)	15.0	(0)	6.9	5.1
Free management	(1)	(1)	10.0	(2)	3.4	7.7
Other	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(5)	(29)	(39)

Third choice	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Enlarge customer base	(1)	(2)	15.0	(1)	14.3	14.3
Recruit/train expert	(2)	(0)	10.0	(0)	17.9	20.0
Enlarge/up date tech.	(1)	(3)	20.0	(1)	25.0	20.0
Develop products	(3)	(3)	30.0	(1)	17.9	20.0
Freely open branches	(0)	(0)	0.0	(1)	21.4	8.6
Relaxed interest rate	(0)	(1)	5.0	(0)	3.6	8.6
Free management	(1)	(3)	20.0	(0)	0.0	8.6
Other	(0)	(0)	0.0	(0)	0.0	0.0
			100.0		100.0	100.0
	(8)	(12)	(20)	(4)	(28)	(35)

Multiple choices	LBs	NBBs	DMBs	ITCs	MSFCs	CCs
Enlarge customer base	4.2	5.6	5.0	21.4	9.3	10.5
Recruit/train expert	16.7	0.0	6.7	14.3	12.8	13.2
Enlarge/up date tech.	16.7	16.7	16.7	7.1	10.5	17.5
Develop products	16.7	27.8	23.3	21.4	22.1	22.8
Freely open branches	29.2	5.6	15.0	14.3	31.4	21.1
Relaxed interest rate	0.0	13.9	8.3	0.0	5.8	7.9
Free management	16.7	30.6	25.0	21.4	8.1	7.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
	100.0	100.0	100.0	100.0	100.0	100.0
	(24)	(36)	(60)	(14)	(86)	(114)

[APPENDIX 7-34] CONSIDERATIONS ON GRANTING HOUSEHOLD LOANS
(Q-24 of DMBs and Q-22 of MSFCs/CCs)*

Second choice	LBs	NBBs	DMBs	MSFCs	CCs
Real estate collateral	(1)	(6)	36.8	25.0	32.5
Savings as collateral	(2)	(2)	21.1	4.2	15.0
Credibility of borrower	(0)	(3)	15.8	37.5	10.0
Personal relationship	(0)	(0)	0.0	8.3	12.5
Occupation of borrower	(3)	(1)	21.1	8.3	15.0
Suretyship of borrower	(1)	(0)	5.3	16.7	15.0
Other	(0)	(0)	0.0	0.0	0.0
			100.0	100.0	100.0
	(7)	(12)	(19)	(24)	(40)

Multiple choices	LBs	NBBs	DMBs	MSFCs	CCs
Real estate collateral	13.3	29.2	23.1	30.2	22.2
Savings as collateral	33.3	37.5	35.9	13.2	19.8
Credibility of borrower	20.0	25.0	23.1	28.3	22.2
Personal relationship	0.0	0.0	0.0	7.5	9.9
Occupation of borrower	26.7	8.3	15.4	5.7	14.8
Suretyship of borrower	6.7	0.0	2.6	15.1	11.1
Other	0.0	0.0	0.0	0.0	0.0
	100.0	100.0	100.0	100.0	100.0
	(15)	(24)	(39)	(53)	(81)

*. ITCs are not allowed to grant household loans.