Partial least squares structural equation modeling (PLS-SEM) is a non-parametric approach based on OLS regression designed to maximize explained variance in latent constructs. It is already a popular tool in marketing and management information systems used to explain directly unobservable phenomena, e.g. customer service quality (see Table 1 in Hair et al. 2014b for a breakdown of business disciplines using PLS-SEM). According to Jöreskog and Wold (1982, p.270) “PLS is primarily intended for causal-predictive analysis in situations of high complexity but low theoretical information.”

In addition to being robust with skewed data, PLS-SEM is considered an appropriate technique when working with composite models (Henseler et al. 2014, 2015). The variance-based PLS-SEM has particular advantages when it comes to composite modeling over its better known cousin the covariance-based structural equation modeling (CB-SEM) (Henseler et al. 2009, Hair et al. 2014a,b, and Sarstedt et al. 2014). Especially the prediction-oriented character and the capability to deal with very complex models when exploring the sources of competitive advantage and success factors make PLS-SEM highly popular as the primary method of choice in a wide range of disciplines (see Hair et al. 2012a,b, Ringle et al. 2012, Sarstedt et al. 2014). The following summarizes the main reasons for selecting PLS-SEM in composite modeling (see Table 1.6 in Hair et al. 2014a):

- Research is exploratory, i.e. the researcher is working in an environment of underdeveloped theory.
- Sample size is small: A rule-of-thumb found in PLS-SEM literature requires the sample to be at least ‘ten times the maximum number of indicators associated with an outer model (construct)’ (Barclay et al. 1995). This rule should be considered as the bare minimum and
researchers are advised to consult Cohen (1992) for power tables to identify a more project-specific adequate sample size.

- Data are non-normal.
- The primary research goal is predicting key target constructs.
- Structural model is complex, i.e. there are multiple constructs including formative and reflective measurement models.
- Modelling is recursive, i.e. no circular relationships; only single-headed arrows exist between latent constructs.
- Latent variable scores are to be used in subsequent analysis.

This handbook represents the first collection of PLS-SEM applications in Banking and Finance. Until now, PLS-SEM has not enjoyed a wide acceptance in Banking and Finance. We expect this handbook to become one of the *reference books* for those researchers keen on adopting PLS-SEM to explain latent constructs in Banking and Finance.

Researchers are invited to submit their empirical studies using PLS-SEM for possible inclusion in this first handbook. Examples of latent constructs at the microeconomic-level include customer service quality, managerial effectiveness, perception of market leadership, etc.; macroeconomic-level latent constructs would be found in contagion of systemic risk from one financial sector to another, herd behavior among fund managers, risk tolerance in financial markets, etc. *Behavioral Finance* is bound to provide a wealth of opportunities for applying PLS-SEM.

**Authors are encouraged to contact the corresponding editor with a two-page outline of their ideas before writing their chapters. The deadline for submission of the two-page outline is 15 May 2016 (an extension on this deadline can be negotiated), and the deadline for completion of chapters is 30 January 2017.** While the main thrust of the handbook is *application*, authors are encouraged to underline potential shortcomings of PLS-SEM in specific applications and offer methodological solutions. When appropriate, comparison with CB-SEM is also encouraged. *Unpublished submissions not under review elsewhere are solicited.* The book is expected to go into production in mid-2017 and the copyright shall be vested in the name of the publisher. Authors will be required to share the data used to write chapters with the corresponding editor, as well as the readers of the book once published (assuming such an action does not infringe any copyright); similar requirement applies to any code written by the authors such as in *R*. 
**Some Potentially Useful References**


[A video demonstration of PLS-SEM in banking can be found here: https://youtu.be/SzQ_UWnqgQ]