

The Macrotheme Review

A multidisciplinary journal of global macro trends

The Role of Reputation in Bank Selection Decision

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Abstract

Based on previous finding it is not anymore questionable that the overall opinion related to corporate reputation strongly influences existing and potential consumer's choice. Reputation as a growing factor in the value of companies has direct impact on customer's behavior, among others influences loyalty and willingness to recommend its services. After exploring more existing reputation evaluation framework, in the present study we are trying to define which are the key-dimensions and features of a reputation measurement system that can be applied in case of financial institutions. Based on young customer opinion we also try to identify how these dimensions influence their bank selection decisions.

Keywords: organization reputation, reputation evaluation, bank selection decision

1. Introduction

When purchasing services, especially when making decisions related to bank selection, the perceived risk increases significantly. The crisis has shaken confidence in financial service providers who can clearly be made responsible for the evolution of events. The demand for information and accordingly the role of communication have increased concerning banking transactions in terms of both active (lending) and passive (deposit placement) ones. Communication cannot, however, be confined to informing about products and services, but should also strengthen the reputation of the company.

The question of relationship between reputation, corporate identity and image is a permanent issue among theoretical experts, while in practice these terms are often used as synonyms for each other. Reputation, as the determining element of intangible capital (Fombrun, 2001), increases the value of companies not only through its influence on purchasing decisions. It is a fact that the value of reputation is difficult to measure, but the majority of researchers claim that strong reputation has an effect on company performance by building trust and improving the willingness to recommend (Dowling, 1994; Buckley, 2009; Ruiz et al , 2013).

2. Definition of reputation, factors that build reputation

Despite numerous attempts the notion of reputation has not been precisely defined until today, and its exact location in the framework of identity and image has not been determined.

According to the definition in Collins English dictionary, "reputation is the recognition of positive or negative traits ... an impression of a person or thing formed in public." (Oliver, 2009 p. 59)

Several academic agree (Fombrun, 1996, Roper-Fill, 2012) that reputation reflects the opinion of the company's external and internal stakeholders. Partly for this reason it is possible to interpret and examine several aspects of it, that include strategic management, organizational theory, economics, marketing, communications, accounting and finance. (Roper-Fill, 2012)

In their comprehensive, analytical and synthesizing work, summarizing forty-nine reputation definitions, Barnett et al. (2006) organized scholars' previous approaches into three categories. Accordingly, some researchers identify the reputation with consciousness/ awareness, which means that stakeholders have a general understanding of the company but form neither a positive nor a negative judgment about it. According to the reputation as an assessment approach the strength of reputation is the result of ratings and determines the company's attractiveness. The value/asset based definitions interpret reputation as corporate capital and consider it a long-term competitive advantage. As defined in the research as a conclusion 'Corporate Reputation: Observers, collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time.' (Barnett et al, 2006 p. 34)

According to the researchers nowadays reputation is in a new ecosystem ("economy of reputation"), where members of society are networked and companies work along the constant influence of their stakeholder groups. In this system the systematic flow of information, trust, and the quality of relationships become vital. (Feldman et al, 2014)

The question what factors build reputation is relevant to both the interpretation of the concept and its measurability. Fombrun (1996) identified credibility, trustworthiness, reliability, and responsibility as the building elements of reputation. Public awareness, public opinion and public esteem are the prerequisites for reputation according to Nyárády-Szeles (2004). According to them "famous is the one we know, appreciate and also love". (Nyárády-Szeles, 2004 p. 211.)

The above-mentioned abstract factors did not make the concept of reputation more tangible, but at the same time the methodologies measuring reputation (also encircled by serious debates) are looking for factors, which, apart from describing reputation at least in an indirect way, can be made measurable by exploring the attitudes related to the given factor. Fortune's Most Admired Companies (FMAC) framework, for example, focuses on eight areas: quality of management, product, service quality, solvency, ability to attract talented people, the use of corporate assets, values, innovation and community environmental responsibility. (Oliver, 2009) Twenty features are appreciated within the six components of Reputation Quotient, such as strategic planning, financial performance, work environment, products and services, social responsibility and, finally, emotional effect. (Nyárády-Szeles, 2004) The individual measurement techniques match at countless points, definitely in the point that both the external and internal focus is displayed in them, which makes their applicability more difficult since the individual issues are targeted at different stakeholders. Among other things, this is the basis for constructive criticism (Van Riel, 1997)

Strong reputation can have countless positive returns: it can improve customer judgment on product/service quality, can contribute to the willingness of recommendation, can protect the

company in a crisis situation or from an attack by competitors, can contribute to creating a more positive employer brand, can help to get cheaper capital, can facilitate expansion and growth. (Feldmar et al., 2014; Ruiz et al., 2014; Dawling 1994) Well-performing companies in the field of reputation differ from their less successful counterparts in five factors, such as visibility, transparency, dissimilarity, consistency and originality. (Nyárády-Szeles, 2004)

3. The relationship between corporate identity, image and reputation

Over the past thirty years, since reputation, corporate identity and image became the focus of researches, there was no generally accepted framework established for clarifying the relationship between the three concepts. If we accept that reputation is a value judgment, which is the community's response to the communication of the company, its presence, that is, the "effect", then corporate identity can be considered as the "cause", the starting point of reputation. (Nyárádi-Szeles, 2004). Corporate identity consists of content (e.g. corporate philosophy, mission, vision, corporate culture, etc.) and form/design (logo, slogan, color, etc.) elements. Reputation is often used as a synonym for image. (Oliver, 2009) It should be emphasized, however, that distinction between image and reputation is indispensable and useful if we take into account only the fact that the image may change even as a result of an advertisement, while building reputation requires more time and effort both internally and externally. (Konczosné, 2013) Taking into account the orientation/stakeholder scope of the individual concepts, corporate identity is built by the company, image emerges in the minds of external stakeholders, while reputation can be interpreted as the long-term embedding of the image, which is heavily influenced also by changes in the social and competitive environment. (Feldman et al, 2014)

The conceptualization of identity, image and reputation is made more difficult by the fact that some authors interpret identity as an image formed in internal stakeholders, others do not see a measurable relationship between the concepts and use them as a synonym for each other. (Oliver, 2009)

Walker (2010) summarized the literature of twenty-seven years to map the differences between the individual concepts. Adding some other factors to the examination criteria he created, the differences between identity, image and corporate reputation and the relationship between concepts are illustrated in Table 1.

Table 1 Differences between identity, images and corporate reputation

	Corporate Identity	Corporate Image	Corporate Reputation
Orientations	Internal and external stakeholders	External (Mirror image) stakeholders Internal stakeholders (Self images)	Internal and external stakeholders
Perceptions	Actual	Desired	Actual
Way of development	Constructed	Constructed/Intended Current/Wish	
Emanating from inside or outside the firm	Inside	Inside	Inside and outside
Positive or negative perception of the firm is possible	Positive or negative	Positive	Positive or negative
Viewpoint	„Who are we as an organization?”	„What does the organization want others think about the organization?”	„What the organization seen to be?”

Source: by the author based on Walker (2010), Nyárádi-Szeles (2004), Barnett et al (2006), Brown (2006), Dörnyei-Bauer (2014)

4. The impact of reputation on bank selections decision

Banking and financial activities are usually listed in the scope of services, however, due to some of their characteristics they can be considered unique. The purchasing activity of banks is very special, the cost of accessing capital is of key importance in terms of their performance. The financial crisis shook inter-bank relationships, too. In connection with it several studies have examined the importance of financial reputation and its impact on the pricing of inter-bank transactions. (Camba-Mendez, 2014; Buckey-Nixon, 2009) This paper does not look at this aspect of reputation but focuses solely on consumer bank choice decisions.

As regards banking services, we are talking about active or passive transactions that require different marketing approaches. (Table 2)

Table 2. Specifics of active and passive banking transactions

	Transaction role	Specialty of transaction	Marketing tools
<i>Active (lending)</i>	Seller	Customer acquisition, selection	Market research, market analysis, relationship management
<i>Passive (deposit placement)</i>	Buyer	Engaging customers, building trust	Advertising/PR, image, CI, relationship management

Source: Kenesey (2004 p.13)

Customers' decisions regarding bank-choice have been studied in numerous research projects. Geremeskel (2014) synthesized the results of 12 studies of nearly forty years. Researches refer to factors such as: service charges, service quality (including financial advice, staff competence and kindness, promptness), product/service choice, convenience (accessibility, bank branches, number of ATMs) and recommendation. Most, altogether seven researches identified the bank's reputation as one of the most important decision-making criteria, but the bank's share capital and the quality of communication were also mentioned in one case. Based on this, it can be assumed that the bank's reputation is in a prime location among the bank selection criteria also on the basis of the opinion of the sample we were examining (H1).

The direct relevance of reputation is difficult to identify regarding bank selection decisions, but indirectly it still has an impact on customer behaviour by shaping loyalty and increasing willingness to make a recommendation. (Ruiz et al., 2013) We believe that recommendation will be a decisive factor in bank selection decisions, particularly among younger respondents, since they do not have previous experience with financial institutions. (H2)

Ruiz et al. (2013) carried out a research among clients of four leading Spanish financial institutions. Their aim was to map out the real impact of reputation-building factors on reputation, based on the literature. In the light of the results, reliability and the quality of the management can indeed be regarded as the antecedents, the cause of reputation, while the quality of the products/services, the ability to innovate, but even social responsibility/activity did not correlate with the value judgments associated with the general reputation. Based on these, it can be assumed that the individual factors exert their influence in close association with each other, not directly on reputation. Factor analysis was performed to verify this.

5. Methodology

The decision to make a bank choice affects everyone, irrespective of age, gender, place of residence and income, so the sampling population is therefore quite heterogeneous. Using a convenience sampling procedure our questionnaire was sent online to the interviewees. Although young respondents are overrepresented in the sample, rural, less educated, older subjects also appear. However, our research is not representative due to the sampling method. We have 221 respondents, the composition of the sample is shown in Table 3.

Table 3. Composition of the sample

		Frequency	Percent	Cumulative Percent
Gender	Male	91	41,2	41,2
	Female	130	58,8	100,0
Type of residence	Budapest	124	56,1	56,1
	Town	71	32,1	88,2
	Willage, rural area	26	11,8	100,0
Age	18-29	107	48,4	48,4
	30-49	84	38,0	86,4
	50-65	18	8,1	94,6
	65+	12	5,4	100,0
Education level	Primary education	1	,5	,5
	Lower secondary education	4	1,8	2,3
	Upper secondary education	82	37,1	39,4
	Bachelor or higher degree	134	60,6	100,0

Source: by the author based on primary research

To examine our preliminary assumptions we asked the respondents' opinion in three areas: as regards the choice of the current bank, the factors that make up reputation and in general about the importance of the criteria that emerged when choosing a bank. The value judgments related to allegations were measured using a six-stage Likert scale.

6. Results

We used closed, multiple-choice, combination questions to examine the electoral aspects of the current account-keeping bank, three of the possible answers could be selected by the respondent.

Table 4. Bank selection criteria

Account-keeping bank selection criteria	Frequency of mentioning
Based on favorable bank offer	94
Based on friends or relatives recommendations	90
Based on online banking services	38
Availability at current place of residence	35
Based on the advice of current employer or school	34
Based on advertisement	13
Availability near current workplace	12
Other	14

Source: Source: by the author based on primary research

Based on the results, according to the preliminary assumptions, recommendation and, through this, reputation is a top priority in the selection of the current account-keeping bank. Among other factors, convenience concerns (e.g. ATMs and branch networks) and constraints appeared, such as a borrowing facility close to home. Examining the relationship between the decision based on recommendation and the age, correlation between the two variables can be demonstrated. Based on the Pearson Chi-square test ($\chi^2 = 47,195$; $df = 3$; $p < 0.00$) it can be stated that young people (18-29 years old) are more likely to rely on the opinion of others than older respondents, the relationship between the two variables can be considered strong (Cramer $V = 0.462$). Our second hypothesis can be supported based on the results.

Based on the reviewed literature, it was assumed that reputation was of paramount importance to the interviewees. Examining the importance of factors related to bank selection (Table 5), respondents identified reliability as a very important factor, while reputation got the penultimate place based on averages. We reject our first hypothesis, based on the opinion of the respondents, service quality and comfort considerations have priority over the institution's reputation and its financial performance.

Table 5. Importance of factors related to bank selection

	N	Mean	Std. Dev.
Reliability of the bank	221	5,5249	,81774
Banking fees, service costs	221	5,2353	1,03959
Online/digital servicer	221	5,1267	1,14505
ATM network	221	4,9367	1,31272
Branch network	221	4,6380	1,32295
Attractiveness of the bank offer	221	4,5882	1,20892
Reputation of the bank	221	4,5566	1,22575
Financial performance of the bank	221	4,4299	1,27949

Source: by the author based on primary research

The significance of reputation-building factors was also measured on a six-stage Likert scale. When collecting the formulated statements, we tried to make the respondents evaluate only those factors that could be well interpreted to them. Along these criteria eleven statements have been made, among which the most important in terms of shaping reputation organized operation, smooth, comfortable, multi-channel/omni-channel administration process as well as appropriate information were identified by the participants in the research.

As reputation- related statements have been determined by ourselves, we used Cronbach alpha to test the reliability of the elements of the model to measure reputation. The result obtained (Cronbach alpha = 0.802) supports the internal consistency of the scale. It can be seen from Table 6 that removing any factor reduces reliability, the model appropriately captures the topic.

Table 6. Results of Cronbach's Alfa

Statements	Cronbach's Alpha if Item Deleted
q3.1 Offers a wide range of financial services	,785
q3.2 Provides accurate information on conditions and fees	,793
q3.3 Simple, quick problem-solving	,801
q3.4 Professional bank administrators	,794
q3.5 Provides multi-channel/omni-channel administration	,788
q3.6 Continuous service development	,780
q3.7 Incorporates the latest technological developments	,786
q.3.8 Socially responsible company	,780
q.3.9 Acknowledged management	,787
q.3.10 Well organized operation	,776
q.3.11 Outstanding financial performance	,775

Source: by the author based on primary research

Based on the reliability test, it is advisable to include all variables in factor analysis. The KMO value obtained during the run is 0.784, which means that variables are suitable for factor analysis. During the analysis, main component analysis and Varimax rotation method were used and the three factors thus formed together account for 60.451% of the total variance, which is just over the minimum of 60% defined in the literature (Sajtos-Mitev, 2007).

The factors and the explanatory power of the individual components are shown in Table 7.

Table 7. Rotated Component Matrix

	Component		
	F1	F2	F3
q.3.9 Acknowledged management	0,828	0,193	-0,134
q.3.11 Outstanding financial performance	0,711	0,202	0,204
q.3.10 Well organized operation	0,679	0,061	0,477
q.3.8 Socially responsible company	0,677	0,283	0,039
q3.6 Continuous service development	0,237	0,771	-0,011
q3.7 Incorporates the latest technological developments into its operation	0,179	0,766	-0,013
q3.1 Offers a wide range of financial services	0,204	0,613	0,174
q3.5 Provides multi-channel/Omni channel administration	0,09	0,564	0,371
q3.3 Simple, quick problem-solving	-0,019	0,075	0,815
q3.4 Professional bank administrators	0,281	-0,038	0,77
q3.2 Provides accurate information on conditions and fees	-0,01	0,385	0,643

Source: by the author based on primary research

The three factors obtained can be defined as follows:

F1: The ***theoretical dimension*** of reputation involves components that consumers may have theoretical knowledge about, which they likely do not perceive directly in practice, they only attach a general belief, however, they think those are important for the development of reputation.

F2: The ***service dimension*** includes components which characterize the diversity, the innovative nature of the service and its easy accessibility.

F3: The ***empirical dimension*** includes factors that explicitly appear to consumers (e.g. speed of problem solving, standard of communication). These are the factors that in themselves do not affect bank selection since they can only be experienced by the customer when he is committed, but greatly affect their satisfaction and, through this, the willingness to offer.

7. Summary and conclusions

Reputation is a difficult-to-measure, complex concept whose impact on consumer decision-making has long been a concern for both theoretical and practical professionals.

In the present research, besides examining the aspects of bank selection, we included elements of reputation-measuring models that can be interpreted by consumers and customers. On the basis of a questionnaire survey conducted on a non-representative sample, it was found that in the selection of the account-holding bank, reputation may have a role implicitly in the decisions made on recommendation, but in respect of selection criteria, the respondents rated the "reputation of the bank" as a criterion of importance in the penultimate place. Exploring the causes would require qualitative, exploratory research but it may be assumed that the abstract character of reputation, which is difficult to understand by consumers, can play an important role in it.

Based on the main component analysis, three factors have been identified in terms of reputation-building factors: theoretical, service and empirical dimensions. The flow of information about theoretical elements, which are directly less perceptible, the detailed, factual presentation of individual service elements and the continuous development of empirical elements can all contribute to the forming and shaping of the desired reputation. We believe that one of the decisive elements of reputation building is the adequate quantity, quality and content of communication. The results of this study accordingly may provide guidance on the content elements of reputation-building communication.

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