Influence of Banks’ Corporate Reputation on Organizational Buyers Perceived Value

Vesna Babić-Hodović, Eldin Mehić, Maja Arslanagić*

*School of Economics and Business Sarajevo, University of Sarajevo, Trg oslobodjenja – Alija Izetbegovic 1, 71000 Sarajevo, Bosnia and Herzegovina

Abstract

Corporate reputation helps customers to decide whether to buy services or not when they can’t assess the quality before buying. As a consequence, reputation is especially important for service companies with predominantly intangible offer. Companies having the ability to provide superior service are perceived valuable by customers and therefore have a significant competitive advantage. The assumption is that the perception of the value of organizational buyers is not formed solely on economic criteria. In order to investigate the influence of banks’ corporate reputation on the organizational buyers’ perceived value, research has been conducted in Bosnia and Herzegovina (B&H), on the sample of 104 companies from different B&H industries. Main conclusion of the research was that influence of banks’ corporate reputation on organizational buyers’ perceived value is positive and significant. In line with research results it means that banks should necessary keep in mind customer perceived value phenomenon, but also corporate reputation, its management and permanent improvements.

Keywords: Corporate Reputation; Customer Perceived Value; Services; Organizational Buyers; B2B

1. Introduction

Scientific community poses many questions regarding companies’ corporate reputation. They vary from ‘How to build corporate reputation in the company?’ to ‘How does the corporate reputation impact perceptions and attitudes of stakeholders?’ Findings that describe the relationship between reputation and performance are well documented in scientific literature. They show that good reputation directly impacts performance by bringing higher stock price and a higher return on investment. Also, it affects the formation of alliances and building networks and associations, which represent an indirect effect [1]; [2]; [3]; [4]; [5]. Good reputation brings number of strategic benefits, such as: reductions in costs [6]; [7],
premium prices [6]; [7]; [8], better job applicants [7]; [9]. It brings investors [10], customers [7], increases profitability [1] and creates barriers to competition [6]; [7]; [11]. Reputation can partially compensate for lack of personal experience of some stakeholders [12], therefore it helps customers to make a decision in situations where they cannot assess the quality before buying [13]; [14]. Because of the above stated, reputation is important for the companies ‘based on knowledge’ that is for service companies. Level of tangibility of services affects the ability to control services and service processes, and to assess the quality of service [15]. According to Fombrun [7], services are ‘goods based on trust’ and they are bought based on reputation.

Providing superior value compared to other companies is the main goal of all providers in the market. Those who have the ability to provide superior service so that customers perceive them valuable enough have a significant competitive advantage. Therefore, managers and scientists continually examine how customers evaluate the value of the service [16]; [17]; [18]; [19], and what can influence customer perceived value (CPV). Before joining the exchange process, the customer expects a certain level of costs and benefits, and after using the products and services supplied perceived value. Customer perceived value (CPV) can be presented as a ratio of total benefits and total sacrifices invested by buyer in order to enjoy these benefits [19]; [20].

Special treatment, compared with general remarks on satisfaction, value and reputation, are related to the industrial market, i.e. business-to-business (B2B) relationships. Therefore, the main question tested in this research is whether service companies’ corporate reputation impacts organizational buyers’ perceived value. In order to test the above mentioned this paper examined the influence banks corporate reputation on the perception of the value of organizational buyers in Bosnia and Herzegovina. Corporate banking in B&H was analyzed, with the focus on payment/transaction services. These services are necessary for the functioning of the company and represent an integral part banks offer.

2. Banks’ Corporate Reputation

Corporate reputation has recently become a topic of great interest for both the business and scientific community. Approaches to reputation vary, and so do definitions of this construct. In the introductory article of the first issue of professional periodical Corporate Reputation Review, Fombrun and Van Riel [21] point out that there are six different approaches to corporate reputation in literature. They include the economic, strategic, marketing, organizational, sociological, and accounting approach. They emphasize that each of these disciplines views reputation in a different way and depending on the discipline, reputation may represent: a signal, image, a brand, identity and an intangible asset. This is also confirmed by Barnett, Jermier and Laffert [22], who based their analysis on over 46 different sources, and defined three different clusters of the meaning of reputation: awareness, estimate and resource. Besides, reputation is often presented as corporate identity (a set of symbols), corporate image (impressions on the company), corporate reputation (observers’ judgment), and corporate reputation capital (economic resource).

According to Barnett, Jermier and Laffert [22], corporate reputation is observers’ common judgment on a company based on financial, social and environmental impacts attributed to the company over a defined time period. Another definition that should be described unifies essential characteristics of reputation [23]: comparatively stable companies’ characteristic, specific in terms of issue/topic, aggregated, based on the perception of company's past activities and forecasts for the company's future, formed according to defined standards (thus a relative, rather than an absolute indicator). Literature most frequently uses the following definition [24]: "reputation is a collective presentation of a company's past activities and results, which describe the company's ability to provide valuable outputs to different stakeholders. It measures the company's relative position both internally, with employees, and externally with stakeholders, compared to the competitive and institutional environment.”

There are a few different kinds of standards that have been used in studies for comparing corporate reputation. Based on the overview prepared by Walker [23] these include economic performance,
previous levels of reputation, company size, company age, exposure to media (visibility), responsibility in social issues, market risk, managerial techniques, and product and service quality. Research has shown that company reputation affects customer loyalty, and it may partly compensate for company stakeholders' own experience [12].

Marketing theory has made a shift from perspectives prevailed by goods and focused on the tangible output and discrete transactions, to the perspective prevailed by services, intangibility, exchange process and relationships [25]; [26], and attaches increasing significance to research in the area of services. Corporate reputation of service companies, and therefore banks as well, is assessed compared to the already set standard, most often compared to other companies in the market. It can be concluded that for service companies, building and maintaining corporate reputation is a significant competitive advantage in the market. According to [7], such 'trust-based goods' are purchased based on reputation, and therefore service companies should consider building, maintaining and defending their own reputation as their fundamental strategic determinant.

Corporate reputation measuring typically uses relative variables, and a given company's reputation is thus measured in comparison to defined reference values. According to Selnes [27] and Hansen et al. [19], these are: company's reputation perception among primary reference group members (peers and friends), company's reputation perception compared to competition (relative reputation), and company's reputation perception in the general market (general reputation).


The concept of value has always been the foundation for marketing activities [28]. Customer value is closely related to the basic marketing principle – voluntary exchange between competent participants in the market. However, the question that is interesting for this paper is how the reputation built by a bank affects customer perceived value (CPV). In order to study this relationship, it is necessary to make an overview of the basic assumptions of the customer perceived value.

CPV can be defined as a concept that represents the overall estimate of product utility based on perceptions of what was received and what was given. Thus, value is balance, i.e. trade-off of basic 'give and get' components [29]. The benefit components ("get") within value include indicators such as: quality, brand, advertising level, country of origin, and other value signals. The effort/sacrifice component ("give") within the perceived value includes monetary (price expressed in money) and non-monetary component (e.g. time, energy and effort) for acquiring products and services [29]; [30].

Based on the above, one of the ways in which CPV can be presented is the ratio between total benefits obtained by a customer and total costs they have in the exchange process [19]; [20]; [29]. Since CPV is a multidimensional construct, there have been many attempts and methods of measuring it. Lin et al. [31] provide a clear overview of these measurements: constructs by Lapierrea [32], PERVAL [33], EVS [34] i SERV-PERVAL [35].

With respect to industrial (B2B) relations, researches have typically been conducted at a conceptual level [36]. Since organizational buyers purchase mainly for economical, rather than emotional reasons, the customer perceived value should be a critical dimension of business (B2B) marketing [37]. According to Monroe [38], in the industrial market, perceived benefits are a combination of physical attributes, service attributes and technical support available in a given situation. The perceived sacrifices are sometimes defined in a monetary form, and at other times broader. Different buyer segments perceive the same product's value differently. Besides, different members in the buyer's organization involved in the purchasing process may have different perceptions of the supplier's delivery value [39]; [39].

When testing the corporate reputation impact on customer value, Hansen et al. [19] use a set of six variables which are, for this research purposes adjusted to the banking market as follows: the perceived benefit obtained by the buyer in their relationship with the bank, evaluation of the relationship compared to other banks, perception of advantages from the created relationship with the bank, perception of
spending resources for keeping track of other suppliers in the banking sector, and perception of values they get from the bank for their money.

4. Corporate Reputation and Organizational Buyers’ Perceived Value

In order to explain the influence of banks’ corporate reputation on organizational buyers perceived value, it is necessary to provide basic remarks on the market where the research was conducted. Bosnia and Herzegovina is divided into two entities, the Federation BH (FBiH) and Republika Srpska (RS). BH banking sector is regulated by entity laws on banks, which are to a great degree harmonized, and which regulate the establishment, operations, governance and supervision of commercial banks, and laws on banking agencies, which in turn define goals, independence, powers and responsibility. Central Bank of BH (CBBiH) has the coordinating role in banking supervision, pursuant to Law on CBBiH, which is achieved through cooperation with entity banking agencies and based on regular data exchange and consultations on the banking sector and financial stability issues [41].

According to CBBiH, a total of 30 commercial banks were operating in 2010, including 20 with head offices in the Federation BH (FBiH) and 10 with head offices in Republika Srpska (RS). Majority foreign owned commercial banks prevail in the BH banking system, and in 2010, 21 banks were foreign-owned, seven were locally private owned, and two majority state owned [42]. Based on the above, we can conclude that there is a stable market with a great number of competitors. For the research it is also important that there is an „equal“ market at the BH level (due to significant differences that exist in legal entities in the Federation BH and Republika Srpska), and that it includes a significant numbers of supplying companies (i.e. that there are no monopolistic trends). According to Hansen et al. [19], respondents (companies) should have at least initial experiences with service suppliers, and there should be suppliers that are in the market over a long period of time, as well as newly-established companies with a similar offer.

Although the global economic crisis has affected entire society, thus this sector as well, the sector experts point out that BH banks have coped well with the global financial crisis negative effects, and that the banking sector managed to preserve stability, liquidity and solvency, i.e. that the strong capital base has been preserved. Taking into account the described data on BH banking sector, we can say that there is an active market, and that clients have a wide choice of financial intermediaries with a similar or same offer, mainly at same prices, at their disposal.

Intangibility, as a characteristic of banking services, increases risk in the pre-purchasing stage of decision-making process among users. Information they have at that time is mainly based on trust, since it is difficult to assess essential service features. Therefore, banks’ corporate reputation increases benefits in the buyer perceived value concept. On the other hand, when a company deals with a bank whose reputation is superior compared to competition, less resources need to be allocated for maintaining and supervising the mutual relationship. Corporate reputation thus affects a decrease in effort/sacrifice of the CPV concept. Thus, the basic goal of the study was to test the impact of banks corporate reputation on perceived value in the B2B environment. Based on theoretical assumptions and present research, it is assumed that this impact is positive and significant.

Hypothesis: Banks’ corporate reputation has a positive and significant impact on organizational buyers perceived value.

5. Methodology

Primary data were collected by questionnaire dissemination to the companies in Bosnia and Herzegovina. Questionnaire was disseminated via e-mail, fax or filled-in online. Instrument was constructed on the basis of previous research [19]; [27].
The questionnaire consisted of two parts. The first part considers two variables: corporate reputation (3 items), and customer perceived value (6 items), where the customer perceived value is the dependent variable and corporate reputation is the independent one. Items were formulated in the form of statements, using five-point Likert scale. The second part of the questionnaire consists of 10 questions that represent controlling variables: type of activity the company of respondents, number of employees in the company, company revenue, number of markets where the company operates, organization structure, type of ownership, number of customers/clients and the number of products or services the company offers.

The subject of the research analysis is corporate banking, thus banking services toward companies, particularly payment services. At present, the payment service is necessary for each company's functioning, and is integral part of all banks' offer.

The research was conducted in Bosnia and Herzegovina, in the period from October 2010 to February 2011. Primary data collection was conducted by e-mailing the survey questionnaire to a randomly selected sample of companies. Addresses were generated based on available databases. A total of 800 companies were contacted. Upon the first contact, 154 e-mail messages returned due to incorrect or invalid addresses. At the end of the process, 104 questionnaires were filled in correctly, and therefore analyzed. The analysis assumed that the impact of corporate reputation of the bank does not vary significantly depending on the industry the client company comes from, company size, the number of customers the company has, and other demographic variables.

6. Results

The research sample consists of 19% companies engaged in manufacturing activities, 28% trading companies, and 34% service companies, while the combination of the listed activities is present in 19%. With respect to banks’ corporate reputation, responses to statements are distributed from 1 to 5, while the arithmetic mean varies from 3.48 ($\sigma^2=0.854; \sigma=0.924$) to 3.55 ($\sigma^2=0.697; \sigma=0.835$). The curve describing these data is asymmetric to the right, and is generally of a flattened form. We can say that banks’ corporate reputation is mostly assessed as good, since a high percentage of distribution equals 3.5, i.e. responds with ‘Agree’ or ‘Strongly agree’. In measuring views on CPV, the real distribution from the sample is closest to normal distribution. Responses range from 1 to 5, with arithmetic means from 2.81 ($\sigma^2=0.972; \sigma=0.986$) to 3.25 ($\sigma^2=0.947; \sigma=0.973$). Distribution is slightly tilted to the right, and generally flattened. Ratings for views on perceived value of services offered by the bank are at a medium level, i.e. the greatest percentage of distribution is concentrated at the medium view strengths. After the analysis of one-dimensional statistic indicators, factor analysis, using principal components analysis (PCA) method, was performed for the corporate reputation (CR) and customer perceived value (CPV) construct, respectively.

Corporate reputation (CR)

The first construct observed through the confirmative factor analysis was corporate reputation. It included three items, Table 1. Upon the performed analysis, one factor was singled out and named CR (corporate reputation). Extraction scores are represented as variable CR, whereby this variable is presented in the form of normal distribution (continuous variable). Analysis results reveal that bank corporate reputation is a construct that can be defined by measuring instruments for corporate reputation in general.

<table>
<thead>
<tr>
<th>Items</th>
<th>Communalities</th>
<th>Total Variance Explained</th>
<th>Comp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor: Corporate reputation (CR)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. Results of factor analysis for corporate reputation construct
<table>
<thead>
<tr>
<th>Items</th>
<th>Communalities</th>
<th>Total Variance Explained</th>
<th>Comp. Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In.</td>
<td>Extr.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In.</td>
<td>Extr.</td>
<td></td>
</tr>
<tr>
<td>1. Our relationship with bank is very beneficial to us.</td>
<td>1.000</td>
<td>.300</td>
<td>2.974</td>
</tr>
<tr>
<td>2. Our costs have decreased more than we expected when the</td>
<td>1.000</td>
<td>.471</td>
<td>.926</td>
</tr>
<tr>
<td>relationship to bank was established.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. It is more valuable to us to do business with bank than with</td>
<td>1.000</td>
<td>.578</td>
<td>.695</td>
</tr>
<tr>
<td>other banks from the banking sector.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. We consider it very advantageous to be a customer of bank.</td>
<td>1.000</td>
<td>.594</td>
<td>.526</td>
</tr>
<tr>
<td>After our relationship with bank was established we spend fewer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>resources on monitoring other suppliers in banking sector.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. As a customer of the bank we get more value for money.</td>
<td>1.000</td>
<td>.609</td>
<td>.401</td>
</tr>
<tr>
<td>6.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Extraction Method: Principal Component Analysis.
Only one component was extracted. The solution cannot be rotated.

In order to test the research hypothesis, it was necessary to test the correlation between the observed variables CR and CPV. Correlation between the two variables is 0.537 (p<0.01). Thereupon, a regression model was created where CPV is a dependent variable (Table 3).

Table 3. Regression model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate reputation (CR)</td>
<td>0.537***</td>
</tr>
<tr>
<td></td>
<td>(0.084)</td>
</tr>
<tr>
<td>R²</td>
<td>0.289</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.282</td>
</tr>
<tr>
<td>F</td>
<td>41.371***</td>
</tr>
</tbody>
</table>

CPV is dependent variable
Std. error is in the bracket
***. Significant on the 0.001 level

N=104
The result that is evident from the regression model shows that bank's corporate reputation significantly and positively affects the organizational buyers' perceived value. This proved the research hypothesis. $R^2$ for this model does not have a high value, which can be explained by the fact that corporate reputation is only one of intangible elements that affects CPV, and implies the need for further research and testing of the other elements' impact.

7. Discussion

Research results provide information on bank's corporate reputation impact on customer perceived value in B2B relations. As stated in the theoretical section, relations in the B2B market are in many ways specific, and therefore the purchasing process is different. Buyers in the business market are guided more by rational motives and purchases are of more professional nature, which affects CPV. In case of service purchasing, it is not possible to fully estimate the intrinsic attributes of service offer, and it is necessary to rely upon certain intangible indicators.

In this paper, banks' corporate reputation is presented as a crucial intangible factor for forming customer perceived value. Bank's corporate reputation affects a company's perception of the value of service it receives, and thus its satisfaction and loyalty. It is important for both pre-purchasing and purchasing stage in the service process. Before the purchase, buyers (particularly if they use the service for the first time) often do not have competences to assess the service quality and advantages, and frequently rely on corporate reputation. It can serve to decrease the perceived risk and fear of undesired results. During the purchase, which is often a long-term relation in B2B markets, bank's good corporate reputation implies the development of trust and potential maintaining of established relations, and definitely leads to the creation of positive CPV (through a decrease in perceived costs and/or increase in perceived benefits). As claimed before, it is also a competitive advantage for the bank, and a barrier for competition. Consequently, banks should pay more attention to their performance, formal and informal communication with customers.

8. Conclusion

The paper has several significant implications. In terms of theoretical context, it supports previous studies on the customer perceived value in the service sector, and corporate reputation impact, and provides another useful empirical example. Besides, generating variables based on factor analysis is a contribution in terms of scale validation and additional testing. From the aspect of banks, it is necessary to keep in mind following: a) the customer perceived value phenomenon, but also b) corporate reputation, its management and permanent improvements. With respect to banks, employees also play a crucial role. In order to strengthen banks' corporate reputation, it is necessary to ensure their support aimed at providing quality services.

An aspect that has not been dealt with in the paper, and that is a subject of current research, is the introduction of other intangible variables (such as providing information or flexibility) as dependent variables together with corporate reputation into the model that measures impacts on CPV. Such a research could track the significance of corporate reputation and compare it to other variables. Besides, another interesting topic includes measurement of consequences of forming positive customer perceived value. They are most frequently defined through positively directed advertising. For the B2B service sector, it is an irreplaceable source of reliable information to potential buyers, and could have a positive impact on corporate reputation.

References


