AN IMPACT OF CORPORATE GOVERNANCE
TRUST AND CUSTOMER LOYALTY ON
CORPORATE REPUTATION IN PRIVATE
BANKS

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Abstract: Corporate reputation builds strategic value for a company by granting it a competitive advantage against the rival. A good reputation means higher investment and more customers and higher profit. Corporate reputation can be defined as how an entity (private or public) is perceived by each of its stakeholder. It needs consequently to measure and monitor corporate reputation since it involves numerous factors such as credibility, reliability, responsibility and trustworthiness, customer loyalty. Corporate governance mechanisms seek to protect investors and maximization of corporate value, as well as increasing confidence on capital markets. On the other hand, trust is the confidence that customers have on the provider of services to fulfill their needs. Finally, customer loyalty is defined as promise of buyersto purchase particular products and services of an organization over a consistent period of time.

KEYWORDS: Corporate, Reputation, Responsibility, Stakeholder.

INTRODUCTION

Corporate governance is the system by which companies are directed and controlled. The corporate governance of banks differs from the corporate governance of ordinary companies. This is due to the nature of the banking business, the complexity of its organization, the uniqueness of banks’ balance sheets, the need for protection of the weakest party in the chain, and the systemic risks caused by bank failures. Corporate governance is of great consequence for markets all around the world. This is because financial and economic development revolves around good corporate governance practices. Research studies have proved that financial development in a country depends on investor protection in that country. A high quality of investor protection leads to more developed stock markets. Corporate governance and economic development are inter- linked. Efficient corporate governance systems encourage the development of robust financial systems.
CORPORATE REPUTATION

“Corporate Reputation” is the perception of the corporation by the public and it is a function of triggering events that reveal to the public unknown corporate practice or new facts regarding products and services sold by the firm. Corporate reputation is a valuable intangible asset for companies. Good reputation draws more customers, repeated purchases and favorable treatment by suppliers, bankers, the media and investors. A common understanding of this concept is pivotal to any fruitful discussion on the practical role that the board can play in overseeing the protection and enhancement of the company’s reputation. Corporate Reputation forms part of intangible assets, which include brand, human capital, goodwill, and knowhow. Corporate reputation has a significant impact on investor’s behavior. Research by Earnest and young suggests that about 35% of investment decisions are based on factors such as corporate reputation and image of banks.

PRIVATE BANKS

Private sector banks have been operating in India since the beginning of the banking system. Initially, during 1921, private banks such as Bank of Bengal, Bombay Bank and Madras Bank were in service, all of which formed the Empire Bank of India. Private sector banks are helping to introduce a high degree of professional management and marketing concept to the banking sector. It also helps public sector banks develop similar skills and technology. Private sector banks provide healthy competition at the overall efficiency levels of the banking system. Private banking is provided to high net worth clients. Depending on the look of your financial wealth, the bank will offer you these services. Different banks have different criteria for qualified customers to obtain such services.

OBJECTIVES OF THE STUDY

- To assess the relationship of corporate governance and its dimension affects the corporate reputation.
- To find out the effects of “fairness and transparency” on corporate reputation.
REVIEW OF LITERATURE

According to Caruana and Ewing (2010) corporate reputation as a mixture of the whole information about corporate. Corporate reputation has an important role in service industry and customer’s supportive behaviors can be the influence of their realization of corporate. Reputation in service firms has an important role because customers can’t have a complete evaluation of services and they can benefit from reputation effects.

Ronald W. Masulis & Shawn Mobbs (2014) study revealed that reputation concerns create strong incentives for independent directors to Endeavour to be viewed externally as capable monitors as well as to retain their most valuable directorships. We examine directors holding multiple directorships and the effects of having differential reputation incentives across firms. Our results are consistent with directors being more concerned with their reputation at their most prestigious and visible directorships.

CORPORATE GOVERNANCE WITH TRUST AND CUSTOMER LOYALTY

The first level is trust of customer on an individual and the second level represents the trust of customer on an institution. Trust is a significant intervening factor between behavior of customers before and after the purchase of particular product. Trust is defined as a belief of one party that other party will be fulfilling their needs and wants. An organization uses trust in brand as a risk-reduction mechanism. Further, they have stated in their study that trust is formed of two aspects, perceived credibility and benevolence. Authors also suggested two levels of trust. As far as services are concerned, trust is the confidence that customers have on the provider of services to fulfill their needs. Customer loyalty is defined as promise of buyers to purchase particular products and services and brands of an organization over a consistent period of time, irrespective of competitor’s new products and innovations and these customers are not compelled to switching behavior to other competitors.

SIGNIFICANCE OF THE STUDY

This research intend to study the impact of trust on corporate reputation. The research will make suggestion to heads and top level executives about the importance of trust building on their products and services and impact of corporate reputation development. Board and senior management of the organization would know from this research study about the impact of corporate governance and its factors, trust and loyalty on corporate reputation.
It would provide suggestion and bring out the Importance in implementing corporate governance practices, policies and strategies to sustain and improve the corporate reputation of the organization. That also provide suggestions which would enable the senior management to effectively design the strategies and policies handle corporate reputation. Research will provide the importance of corporate governance and provide inputs of good governance practices leads to development of corporate reputation.

LIMITATION OF STUDY

- This research study is specific to banks, the data for this research study has been collected from Coimbatore city in Tamil Nadu state, India. Therefore, the generalizability of its findings to other location is not possible. The findings of this research study cannot be generalized to other places in Indian state as well as to other states in India.
- This research study relies on data obtained from the banking and finance professional’s opinion. The responses may suffer from human bias and prejudice.
- The resources and time are the reasons for a limited number of respondents included in the research sample. In future we can improve the sample size with more respondents.
- The respondents are only from private sector banks in urban areas and also rural areas needs to be included in future research.

RESEARCH METHODOLOGY

The research design used in this research study is both correlation survey research design and cross sectional research design. Correlation field study is a study based on survey data conducted in field, in which the relationship between one or more independent variables and one or more dependent variables are examined.

The cross-sectional research design is a study that all information pertaining to variables of the research study is collected just once, at a single point in time. Source of data refers to the sources of relevant information to be tapped to fulfill the objectives of the research study. This research study uses both primary and secondary sources of data. The size of a sample refers to “the number of units that need to be surveyed in order for the findings to be precise and reliable.

Totally 700 questionnaires distributed to Banking Investors, Customers and Finance professionals. The questionnaire was sent to mail I’d of investors (Investors mails Id’s are gathered from the broking firm) and
Physical questionnaire was handed over to Bank branches. The employees of banks are considered as more aware about the corporate governance practices and reputation value for the banks. Further Selection of banks are purely based on their market presence and their reputation. The Questionnaire was distributed to only at the level of assistant manager & above employees.

The researcher got back 157 fully filled questionnaires from mail respondents in Coimbatore city, 136 filled questionnaires from different bank employees and 261 filled questionnaires from customers in Coimbatore city. Partially filled questionnaires are rejected by the researcher as it may affect the outcome of the results, and close to 40 questionnaires are not considered due to partially filled and 16 questionnaire from email respondents are rejected due to corrupted files from the respondent. 76 questionnaires are returned back without answering and 14 questionnaires are not returned by the respondents. 700 questionnaires were distributed to banking investors, customer in Coimbatore city for this research study. It is evident from the above table that only 554 fully filled in questionnaires (N = 554) was got from banks investors and Customers.

The response rate for this research study is 79.14% (554/700 *100 = 79 %).

**FINDINGS**

- Half (49.8%) of the respondents are professionals, 44.6 % of the respondents are service class and remaining (5.6%) of the respondents are business class.
- More than half (54.3%) of the respondents have above 6 Years of experience with banks, one third (33.9%) of the respondents are having 1-3 Years of experience and 11.7% are having 4-6 years of experience of banks.
- Cronbach alpha coefficient of transparency dimension of corporate governance pertaining to respondents of the research study is 0.811.
- Cronbach alpha coefficient value of fairness dimension of corporate governance pertaining to respondents of the research study is 0.864.
- The value of Cronbach alpha coefficient of accountability dimension of corporate governance pertaining to respondents of the research study is 0.833.
- The value of Cronbach alpha coefficient of customer loyalty construct is 0.918.
- Cronbach alpha coefficient value pertains to corporate reputation construct is 0.973.
SUGGESTIONS

Trust and customer loyalty has a significant impact on corporate reputation, it is suggested that head of customer service should take adequate care in design a system and process to serve the customers. It expected that “customer delight” feel in all the products and services of the banks. To enhance trust on the product, banks are expected to develop a product with relatively more value addition then their competitors. They should educate their team and constantly make sure training schedule to all employees to deal with the customer in a most cordial approach which will build confident on the banks products, services, and enhance the trust on the banks products and services.

CONCLUSION

The respondents included in the research study shown high level of awareness and responsibility in recognizing the role of corporate governance and its significance in the development of corporate reputation.

The result of regression analysis of this research study shows that corporate governance and its dimension transparency, fairness, Independence, Accountability, trust and customer loyalty individually has a significant influence on corporate reputation among the respondents.

It is also evident from the results of regression analysis of this research study that discipline, dimension of corporate governance individually has influence on corporate reputation among the respondents of the research study. Corporate governance has different impact on corporate reputation. Transparency and fairness plays a stronger role in developing corporate reputation in commercial banks operating in Coimbatore, India. According to our study these two variables significantly contribute in creating good corporate governance which ensures corporate reputation developments.

REFERENCES

