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Corporate reputation and customer loyalty as the measures of competitive enterprise position - empirical analyses on the example of banking sector

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**Corporate reputation and customer loyalty as the
measures of competitive enterprise position –
empirical analyses on the example of banking
sector**

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Corporate reputation and customer loyalty as the measures of competitive enterprise position – empirical analyses on the example of banking sector

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Abstract: *In order to determine the competitive position of a company not only the traditional measures of market position (market share) and financial position (financial ratios) are used but also the qualitative measures concerning intangible resources. Customer satisfaction and customer loyalty are the two most commonly applied qualitative measures. Due to the growing importance of intangible resources, and of reputation in particular, the need arises to use the reputation indicator as a measure of competitive position in achieving a long-term competitive advantage and building the enterprise value. The purpose of this article is to identify the competitive position indicated by the level of corporate reputation in comparison with the customer loyalty indicator and the most popular traditional measures based on the example of banking sector. For calculation of qualitative measures the method of survey was used, conducted among the retail banking customers. The study showed a weak relationship between reputation and loyalty: the banks that received the highest ratings of reputation, obtained the poorest results in terms of loyalty. Due to the limited subjective and methodological scope of research, the results cannot constitute a sufficient basis to prove this thesis, however, they may constitute a good starting point for conducting broader research in this area.*

Introduction

The essence and natural objective of enterprises' competition on the market is to lead continuously to outrunning the rivals and obtaining the best possible position in this race. Competition may take place on many dimensions and may concern various aspects of the functioning of the

competitive subjects. Each of them may gain better results in one field and worse in others. The enterprise's competitive position is understood as a place that it takes comparing to its rivals in a multi-dimensional space of competition in the particular time (Szwajca, 2012b, pp. 26-27). The competitive position informs about the enterprise's strength and distance in relation with the rivals in the particular aspect of activity, therefore, its retention or improvement may constitute an important strategic goal. A change in the competitive position in the particular time allows estimating whether the appropriate competition strategy was used (Romanowska, 2004, p. 262).

Because of a multi-dimensional character of the field of competition, the competitive position may be determined using various measures, depending on the purpose of the analysis. The classical, commonly used measures of competitive position include the measures of enterprise's market and financial position (Barney, 1997, pp. 36-43; Stankiewicz, 2005, p. 299). The most popular measure of market position is market share (due to markets globalization, partial measures are used the most often: domestic, regional, local market share or relative market share calculated in relation to the main competitors), however, financial position is determined using financial indicators: rate of return, liquidity ratio, debt ratio, activity rate. In connection with a dynamic technical and technological advance of the current information era, a significant measure of enterprise's competitive position in this area is the innovativeness level estimated using quantitative and qualitative criteria (see: Szwajca, 2011; Nawrocki, 2012; Michalak, Jonek-Kowalska, 2013).

In the 90s of the previous century the main building material of a long-term competitive advantage were intangible resources (Gorczyńska, 2009, pp. 55-67), including marketing resources connected with the customer. A resulting change in the behavior of enterprises' strategy into the assessment of enterprise's competitive position caused that two other measures of competitive position started being used as well: customer satisfaction and loyalty (Day, 1997, pp. 62-63; Szwajca, 2007, pp. 519-528). In the recent years one of the most valuable intangible resources of a company has been considered to be reputation. Strong, positive reputation strengthens loyalty and confidence not only from the side of customers but also investors, business partners, employees, what translates into better financial results (Roberts and Dowling, 2002; Dowling, 2002; Fuente-Sabatè and Quevedo-Puente, 2003; Helm, 2007). For many years reputation indexes have been the basis for the lists and rankings of the

most appreciated and admired enterprises (Fombrun, 2007). The enterprises themselves also feel the need for assessment and measurement of their reputations more and more and for comparing it with the competitors' reputation (Kitchen and Laurence, 2003, pp. 103-117). In connection with this, the reputation index becomes the next essential measure of competitive position of a contemporary company. The purpose of the article is to identify the competitive position of the largest banks functioning on the Polish market using two measures: customer loyalty and reputation and their confrontation with the traditional measures: market share and return on equity (ROE). In order to accomplish the purpose adopted, the following research hypotheses are formulated:

H₁ There is a positive dependence between the reputation and loyalty level – enterprises with the highest reputation indexes achieve the highest loyalty rates as well and the enterprises of the lowest reputation indexes – the lowest loyalty rates.

H₂ Market share indicates a positive dependence with the level of enterprise's loyalty, and ROE – with the level of enterprise's reputation.

H₃ Market share still constitutes the most popular measure of general competitive position for the enterprise.

The first hypothesis comes from a mutual dependence suggested in literature and from a mutual assistance of two intangible resources such as reputation and loyalty. Positive reputation consolidates confidence and respect for the company in the customer's mind, and the very confidence creates true loyalty. In turn, strong customer loyalty and faithfulness has a positive effect on the customer's opinions about the enterprise and also on passing them to the other groups of stakeholders, what creates positive reputation.

The basis for formulating the second hypothesis is the fact that strong customer loyalty leads to sales increase and to preferring the enterprise's products, what in a long term translates into the market share increase. Furthermore, the positive dependence among the financial results (profitability) and investors' decisions as well as reputation is suggested by many types of research conducted (see: Dąbrowski, 2010, pp. 239-246).

The third hypothesis is connected with a common stereotype that the position of market leader belongs to the enterprise with the highest market share.

Customer loyalty and corporate reputation as the subject of measurement

Customer loyalty and reputation are listed as the key enterprise's marketing resources of a strategic character. Due to their specific features, that is, valuableness, rarity and difficulty in imitating, they may constitute a source of long-term competitive advantage (Szwajca, 2012b). Moreover, as intangible assets they are not prone to depreciation during their utilization and they also enrich and multiply each other: good reputation builds and consolidates customer loyalty, then loyal customers, thanks to their attitudes and recommendations, create positive opinions about the company in the environment (Obłój, 2001, p. 222).

Loyalty and reputation are interdisciplinary categories, understood in various ways and defined by the specialists from different fields (among others, management, marketing, psychology). The various ways of describing and expressing their essence generate difficulties in their measurement reliability. Many conceptions and methodologies in that matter have been developed until now.

Loyalty, in the marketing approach, is understood as behavior, attitude or relation of attitude-behavior, however, most of the authors support the third type (Śliwińska (Ed.), 2008, p. 15). Therefore, it may be stated that customer loyalty is a relatively permanent attitude based on strong conviction about the company's and its offer exceptionality, manifested in a particular behavior. In case of the customer it is the regularity of purchase and recommending the enterprise to other subject. However, in practice, loyalty measurement is the most often limited to investigating the buyer behavior as it is much more difficult to identify the real motives of such behavior (see: Falkowska, Tyszka, 2006; Caputa, 2015, pp.111-112). In the process of customer loyalty measurement there are three groups of indicators used (Jones and Sasser, 1995, p. 94):

- 1) concerning the attempt of repeating the purchase,
- 2) concerning the basic buyer behavior (that is purchase frequency, amount paid, customer retention/defection rate, time of contacts with the company etc.)
- 3) concerning additional (secondary) customer behavior (e.g. disseminating information about the company, recommending the company to others).

The base for their calculation are opinion polls. For example, a standard loyalty rate is a percentage of customers who declare willingness to repeat the purchase or recommend the product or the company to others among all the customers surveyed (Kozielski (Ed.), 2004, p. 66).

Reputation is also a complex, interdisciplinary category, ambiguously defined by the specialists from such fields as: economy, management, marketing, sociology, finance and accounting (see: Figiel, 2013, pp. 17-24; Krawiec, 2009, pp. 36-46). It is most often understood as an accumulated opinion about the enterprise, formulated by such group of stakeholders as: customers, business partners, investors, employees, public administration, local society and total society, on the grounds of perception and evaluation of the various aspects of its activity (Walker, 2010, pp. 367-370). Ambiguity in reputation understanding and defining generates difficulties with its reliable measurement, what translates into the quantity and variety of the methods and conceptions developed (Berens and van Riel, 2004, pp. 161-178). Nevertheless, most of them bases on using survey methods, where the respondents are the various groups of stakeholders (mainly customers and employees) or experts on management or finance. In the survey research they express their opinions on the different aspects of activity of the company evaluated.

The longest traditions of reputation measurement belongs to *Fortune magazine*, which since 1983 has been publishing the rankings of the most admired enterprises from many countries and many sectors of economy. The basis for the rankings are the opinions of the executives of the highest management levels and financial analysts, expressed about the nine following areas of company's activity: innovation, quality of management, long-term investment, social responsibility, people management, products/services quality, financial soundness, use of corporate assets, global competitiveness. Another, popular method of reputation measurement is *Reputation Quotient* developed by the Reputation Institute and Harris Interactive - research enterprise, in the 90s of XX century. The respondents are the residents of a particular country who in the first stage of research indicate the enterprises of the most visible (good or bad) reputation, then on the second stage they evaluate their reputation based on 20 features grouped in 6 dimensions: products and services, financial performance, workplace environment, social responsibility, vision & leadership, emotional appeal (Gardberg and Fombrun, 2002). Another proposal is *Reputation Index* – the instrument created in order to measure and evaluate reputation as one of the intangible assets in the enterprise (Cravens, Oliver and Ramamoorti,

2003). Within the frames of the index there are nine areas assessed (products and services, employees, external relations, innovation, value creation, financial strength, strategy, ethics policy and culture, intangible liabilities) using nine-scale weights for their significance. *Reputation Index* takes into account internal and external information and has a character of an audit, however, the assessment can be made by the enterprise itself or by the external auditors.

Among other, less popular models of reputation measurement, the following may be mentioned: *Corporate Character Scale*, in which reputation is assessed by the customers and employees or *Stakeholder Performance Indicator and Relationship Improvement Tool*, in which reputation may be assessed by the various, selected groups of stakeholders (Dąbrowski, 2010, p. 199).

Methodology of the research

In order to calculate the indexes of customer loyalty and reputation a methodology of measurements was used, based on survey research. A questionnaire method was used, which was aimed at the customers of retail banking. The group of respondents comprised of part-time undergraduate and graduate students from the Faculty of Organization and Management of the Silesian University of Technology from four facilities: in Zabrze, Katowice, Bytom and Rybnik, adult members of their families and their friends who have at least one bank account opened. The sample was selected using the snowball method. The questionnaire was sent to the students via e-mail to the e-mail of the university, along with a request to forward it to one's friends and family. The research was conducted at the turn of year 2013 and 2014.

1428 people took part in the research¹, including 64.3% of women and 35.7% of men. The age structure was as follows: there were 41.7% of people at the age of 19-25, 37.1% at the age of 26-35 and 21.2% of those at the age of more than 35 years old. These were the customers of the following banks: ING BSK (26.6%), PKO BP (21.5%), Pekao S.A. (14.3%), BZ

¹ Over 1800 completed questionnaires were collected but for the purpose of the analysis 1428 questionnaires were chosen among the customers of the seven banks that were most strongly represented. The limit of representativeness was set at 100 customers of a given bank.

WBK (11.7%), mBank (10.1%), Alior Bank (8.6%) and Eurobank (7.2%). Due to the size of the sample and its relatively low level of representativeness, the research may be considered as pilot research.

The level of bank reputation was determined on the basis of evaluation of the various aspects of reputation, suggested by the creators of the Fortune methodology and Reputation Quotient. Due to the fact that only one group of stakeholders took part in the research – the customers – the choice of those aspects was based on the customers' perception ability (e.g. it would be difficult for the customers to evaluate the investment attractiveness of the bank). The following aspects were chosen to be evaluated: the quality of services, social responsibility, level of confidence and attractiveness of the bank as a potential employer. In table 1 the questions related to given aspects are presented.

Table 1. The evaluated aspects of reputation

The evaluated aspect	Contents of the question	The scales of responses
Quality of services (price/quality relation)	<i>I believe that the bank offers the products at a price corresponding to their quality</i>	<i>Definitely yes</i> <i>Probably yes</i> <i>Probably not</i> <i>Definitely not</i>
Social responsibility	<i>In my opinion this bank does not operate for profit only, but is also socially responsible (cares about the natural environment, supports charity action, sponsors culture, sport etc.)</i>	
Level of confidence	<i>This bank is a trustworthy company</i>	
Attractiveness as an employer	<i>I would like to work in this bank</i>	

Source: own work.

While calculating the results the percentage of positive answers ('definitely yes' and 'probably yes') was taken into consideration.

A second nonfinancial measure – customer loyalty – was calculated based on the identification of two most often included symptoms of

loyalty, i.e. tendency to choose the same bank again (*If I had to choose, I would choose this bank again*) and the tendency to recommend the bank to other people (*I would recommend this bank to my friends and family*). The scales of responses were the same as the scales used in relation to the evaluation of the aspects of reputation. Based on this, standard, partial and general loyalty rates were calculated. The general rate is the average of partial rates.

In order to identify the position of the leader among the seven examined banks one of the projective techniques was used in the questionnaire – a so-called party game. It involves asking the respondents to imagine that the analyzed banks are guests on a party, where they have to be placed at the table, starting from the host and ending with the guest sitting the furthest from him. The bank that is chosen by the majority of those surveyed as the host is named the leader. Other banks, by the number of times they were chosen, occupy the rest of the places in the ranking.

The competitive position of the banks, calculated with the help of reputation index and loyalty rate, was compared to the market position determined by the market share and to the financial position, described using the ROE indicator. The data to these calculations were gathered from the annual reports for the year 2013 and from the data posted on the bankier.pl portal.

Presentation of the results

Out of the seven examined banks the highest reputation index was achieved by Pekao S.A. (71.6%), however, its advantage over the competitors who took other places, that is: PKO BP, ING Bank Śląski and Alior Bank, is not large. The worst result – 62.5% was achieved by Eurobank. The general index comprises of four partial indexes, relating to the evaluation of the four chosen aspects of reputation (table 2).

Table 2. General and partial reputation indexes of the examined banks (in %)

Banks	General index	Quality of services	Social responsibility	Level of confidence	Employer attractiveness
Pekao S.A.	71.6	86.6	68.4	95.6	36.0
PKO BP	70.9	80.9	66.7	95.8	40.4
ING BSK	70.6	92.4	57.3	94.1	38.6
Alior Bank	70.0	88.2	66.4	96.1	29.4
BZ WBK	68.8	86.9	63.2	94.2	31.2
mBank	67.2	87.0	35.2	95.5	51.1
Eurobank	62.5	76.3	64.1	87.6	22.1

Source: own work based on the findings.

When it comes to the quality of the services offered the highest index was achieved by ING BSK (92.4%), followed by Alior Bank and mBank, while Eurobank (87.0%) had the worst result. From the point of view of engagement in social activities, Pekao S.A. was rated the highest, then PKO BP and Alior Bank while mBank (35.2%) was rated the lowest. On the other hand, Alior Bank was considered to be the most trustworthy (96.1%) even though the differences are insignificant in the indexes obtained by the banks that were next in the ranking: PKO BP (95.8%), Pekao S.A. (95.6%) and mBank (95.5%). Eurobank (87.6%) was the rated the lowest here. Attractiveness of the banks as potential employers was the lowest rated of all four examined aspects. mBank (51.1%) was relatively the best one, while Eurobank was the worst (22.1%).

Generally, among the analyzed reputation indexes the level of confidence was rated the highest (average of 94.1%) and the attractiveness of the bank as an employer was rated the lowest (average of 35.5%). Such a result seems to confirm the generally existing opinion that banks as financial institutions are considered to be institutions of public trust. Furthermore, a low result of banks as potential employers may stem from the fact of a relatively high indicator of employee turnover in this sector. According to the representatives of international recruitment agencies: Cpl Jobs, Antal Banking & Insurance and HAYS Poland, the highest turnover relates to sales posts related to customer service in subsidiaries and call centers (Praca w banku – zobacz kogo szukają headhunterzy, 2013). The second of the analyzed measures of the

competitive advantage was the customer loyalty. The standard loyalty rates, calculated based on the questionnaire tendencies to choose a given bank again and to recommend a bank to others, are presented in table 3.

Table 3. Standard loyalty rates (in %)

Banks	General rate	The rate calculated based on the tendency to choose the same bank again	The rate calculated based on the tendency to recommend the bank to others
Alior Bank	97.2	98.2	96.1
mBank	92.1	89.7	94.6
ING BSK	91.8	91.5	92.1
Pekao S.A.	87.1	84.2	90.1
BZ WBK	86.5	84.3	88.8
PKO BP	80.9	80.9	80.9
Eurobank	69.4	66.6	72.2

Source: own work based on the findings.

As it can be seen in table 3, the values of the partial rate are very similar to one other. The general rate was calculated as the arithmetic average of partial rates. With the result of 97.2% Alior Bank proved to be the leader in relation to the customer loyalty. The other places were taken by mBank and ING BSK. The lowest loyalty rate has been noted in regards to Eurobank (69.4%).

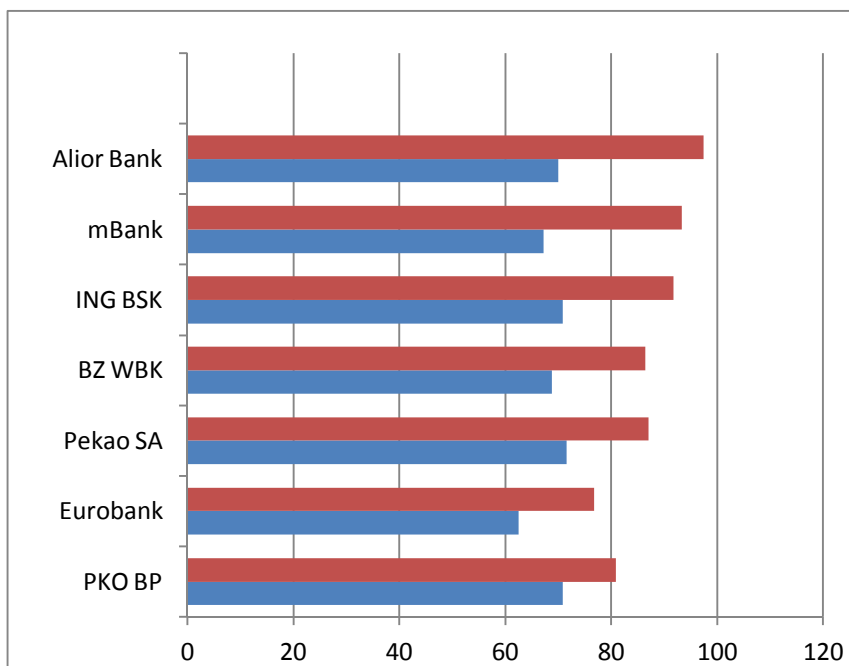
It is worth noting that these results are consistent with the results of research conducted by Bain & Company in the year 2013 regarding customer loyalty in retail banking (Lojalność klientów ..., 2013). In this research the NPS methodology was used². The highest loyalty rates among the Polish customers were achieved by: Alior Bank (36%), Eurobank (34%) and ING BSK (23%).

² NPS – Net Promoter Score – it is the difference between the loyal customers, ready to recommend the services of the bank to others (friends or family) and those who are not willing to do it. This indicator is calculated on the basis of the answer to the question: In the scale from 0 to 10 how probable do you think is recommending your current bank to friends or family?

By comparing the competitive positions of the examined banks described by the reputation index and loyalty rate, one may observe significant discrepancies in their level (fig. 1). It turns out that a positive dependence between the level of those resources cannot be determined, i.e. the banks with high reputation indexes obtained relatively low loyalty rates. Alior Bank, which turned out to be a definite leader in terms of loyalty, in terms of reputation took only the fourth place. Similarly the reputation leader – Pekao S.A. – in terms of loyalty achieved the fourth position as well.

These discrepancies may be attempted to be explained based on the analysis of specificity and diversity of the two examined marketing resources such as reputation and loyalty (Szwajca, 2012b, pp. 102-119 and 131-152). Reputation is a strategic resource, created on the span of many years, on the grounds of experience of stakeholders and on close contacts with the enterprise, what cannot be created using advertising or PR. The time and actions are the two main determinants of reputation (Rhee and Haunschild, 2006, pp. 101-117). The company is rated depending on whether its declarations and promises are in line with the actual actions. Reputation is build more by actions than words, based on trust and conviction of the stakeholders regarding the trustworthiness and reliability of the enterprise. Trust depends on shared values such as morality, benevolence, integrity, inferred traits and intentions, fairness and caring – trust is relational. Confidence is based on past performance and experience with an organization, its competence ability, experience and standards (Earle, 2009, pp. 785-92).

Figure 1. Reputation index and loyalty rate for the examined banks



Source: own work based on the findings.

Loyalty on the other hand, understood and treated by the Polish enterprises, including banks, very superficially as the repeatability of purchases, not as a strong, emotional relationship between the customer and the company. Because of it, it is created mostly by economic stimuli, aimed only at the rational sphere of customers. Such approach does not create true loyalty but, at most, habitual or passive loyalty which is grounded on the habit and routine of repeating a particular behavior (Szwajca, 2012a, p. 147).

By analyzing the reputation indexes of the given banks one may notice a relationship between their level and the age of the bank – the banks with the longest traditions achieved the highest reputation indexes (Pekao exists since 1929, PKO BP - since 1919, ING BSK – since 1988). Other banks began their activities on the Polish market after the year 2000. In turn, the first place of Alior Bank – the bank with shortest history (which exists since year 2008) - in terms of loyalty can be explained by a very expansive and intensive marketing campaign, conducted since entering the Polish market until now.

Comparing the scale of discrepancy between the reputation index and loyalty rate an interesting dependence may be observed. The largest differences concern between the banks with a relatively short history: Alior Bank (-27.4pp.) and mBank (-26.1pp.), while the smallest differences are between banks with the longest traditions: PKO BP (-10pp.) and Pekao S.A. (-15.5pp.).

Examining the competitive positions of analyzed banks it is also worth referring to traditional measures, describing their market and financial position. In relation to the market position, market share was taken into account, calculated as the ratio of the number of current accounts³ of individual customers of the given bank to the number of those accounts in the 20 largest banks operating on the Polish market (data for I quarter of the year 2014). To evaluate the financial position the ROE indicator was chosen. In table 4 all of the analyzed measures of the competitive position of the examined banks are included.

Table 4. Competitive positions of the examined banks according to the analyzed measures

Banks	Market share	ROE	Reputation	Loyalty
PKO BP	22.9	13.2	70.9	80.9
Pekao S. A.	12.8	12.3	71.6	87.1
BZ WBK	10.2	16.6	68.8	86.5
mBank	9.8	13.1	67.2	93.3
ING BSK	7.6	11.6	70.9	91.8
Eurobank	5.1	22.3	62.5	76.8
Alior Bank	4.6	11.0	70.0	97.4

Source: own work based on the findings.

As it can be seen, each of the measures used points out to a different leader. Accordingly, PKO BP is the leader in terms of market share, Eurobank is the leader in the area of profitability. On other hand, in terms of reputation Pekao S.A. took the first place while Alior Bank became the leader in the area of loyalty. Each of the examined bank in some cases

³Only accounts in PLN, excluding savings accounts, were taken into consideration.

achieved even drastically different places depending on the particular measures. For example, Eurobank is on the last place in regards to reputation and loyalty but has the highest profitability indicator. However, Alior Bank is the weakest when it comes to the market share and profitability but the best in terms of loyalty. Each of the measures used highlights a different aspect of the enterprises' activities and functioning. The knowledge and awareness of the position taken on a multidimensional competition space should be considered as a very important piece of information during formulating the strategic goals and designing a target source of competitive advantage.

The results of the party game tests were used to identify a leader understood in a broad sense on the Polish banking market and to determine a ranking of the examined banks. The surveyed customers of all seven chosen banks were supposed to indicate the host of the party, in other words in their opinion the strongest bank on the market. The results achieved are presented in the leader matrix in figure 2.

Figure 2. The leader matrix on the banking market

	PKO BP	ING BSK	Pekao S.A.	BZ WBK	Alior Bank	mBank	Eurobank
PKO BP	83.3	6.8	6.6	2.2	1.1	-	-
ING BSK	11.8	75.6	6.0	1.3	2.7	2.0	0.6
Pekao S.A.	16.0	7.4	67.8	-	5.3	-	3.5
BZ WBK	20.6	6.8	3.7	65.5	3.4	-	-
Alior Bank	23.5	17.7	-	-	58.8	-	-
mBank	21.7	21.7	4.5	-	4.3	47.8	-
Eurobank	28.3	25.5	11.7	-	-	16.6	17.9

Source: own work based on the findings.

The data in the matrix should be interpreted in the following way. The first row of the table means that 83.3% of the PKO BP customers chose their bank as the leader, 6.8% of customers of this bank chose ING BSK as the leader, 6.6% - Pekao S.A., 2.2% - BZ WBK and 1.1% Alior Bank, while no

customer of PKO BP chose mBank and Eurobank as the host of the party. The rates on the diagonal of the matrix show what percentage of the surveyed customers chose their bank as the leader. As it can be seen, PKO BP is the leader in the ranking, the second place was taken by ING BSK and the third one by Pekao S.A. Eurobank received the weakest place.

Conclusions

Corporate reputation and customer loyalty are two valuable intangible resources for the company and in a theoretical approach, they should support and consolidate each other. For this reason, it should be supposed that the enterprises of strong, positive reputations possess high loyalty rates. However, the results of research conducted did not confirm such direction of the dependence as the banks that took the highest places in terms of reputation, received relatively weaker loyalty rates. It may seem that this may be caused by discrepancies between a theoretical approach to loyalty and its superficial understanding by managers. Furthermore, the actions undertaken in order to build reputation (mainly so-called loyalty programs) are limited to purely economic stimuli, what does not favor the creation of strong, emotional ties with the customers and such ties are the foundations of true loyalty. The loyalty really obtained has a habitual, passive character.

Moreover, the research indicated the existence of positive dependence between the loyalty level and market share and between the reputation index and ROE. The banks characterized by a high market share obtained the highest loyalty rates and the banks of low market share – the lowest loyalty rates. A similar dependence was found concerning reputation and profitability. However, the position of market leader in a general sense, identified using the party game test, received the bank of the highest market share and the longest tradition on the Polish market (PKO BP). The other places in this ranking were also determined by the level of market share.

At the end it should be emphasized that the research presented in the article, due to a limited subject and methodological range, was of a pilot character, therefore it does not allow the formation of definite theses. Nevertheless, it may constitute a reason and good grounds for performing further, broader analyses in this area.

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