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### Determinants of banks reputation during crises

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#### Abstract

This study examines the determinants of reputation of the Lebanese banking sector during the political instability and the economic crisis of 2019. This research employed two categories of variables: cognitive determinants and emotional determinants. Based on a recent data explored from 621 customers of 9 Lebanese banks, the results reveal that four cognitive variables (customer care, quality of offer, integrity and reliability and financial strength) have significant and positive impact on the reputation of the Lebanese banking sector during instability. The results also reveal that emotional variables (trust and satisfaction) have more significant impact on the reputation of the Lebanese banks during crises.

Keywords: **Reputation, Banking Sector, Economic Crisis, Risk Management, Political Crisis**

#### Introduction

The financial restrictions and regulations of banking sector during the last political and economical crisis of 2019 come to be the obsession of the Lebanese banks' customers. The high percentage of public budget deficit and balance of payment deficit, the high level of governmental debt especially in foreign currency, the economic recession and the deficit of foreign currency flow during the political crisis of November 2019 amplifies the volatility of the financial behavior. The international credit rating agencies such as Standard and Poor's, Moody's and Fitch have decreased the rating of Lebanon to CCC with negative outlook for 2020.

The central bank of Lebanon showed in its reports that the Lebanese banking sector is the ultimate creditor for the Lebanese government. Standard and Poor's lowers three banks in Lebanon (Blom Bank, Audi Bank, Bankmed) to selective default status. The rating action comes after the release of a new document by the Lebanese central bank requesting banks to pay of the US dollar interest value for depositors, half in Lebanese pounds and the

second half in US dollar.

This environment of financial instability has decreased the confidence towards the Lebanese banking sector and has led the banks' customers to increase their financial withdrawals especially in foreign currencies.

The Lebanese central bank and the ministry of finance in Lebanon have tried to rebuild the reputation of the Lebanese banking sector by fixing the foreign exchange rate and raising up the limit of insured losses to bank depositors to \$50.000 per account.

A lot of theories and papers have showed the importance of reputation as a key for corporate success and sustainable competitive advantage. Based on the theory of reputation [1], good corporate reputation is considered as a set of managerial actions that can play a very important role during crises. Ruiz et al., [2] have developed a bank reputation model in which banks should focus their reputation to reinforce the leadership of their managers and to convey reliability. To achieve the optimization of their reputation during economic crisis, banks have to pay special attention to customer satisfaction and trust.

This research has a significant importance for the Lebanese banking sector. The objective in this paper is to analyze the financial reputation level of the Lebanese banking sector before and during the recent economic crisis. Then, the determinants of bank reputation are explored to lead the Lebanese banking sector to rebuild their reputation in an environment of economic crisis and political instability.

The rest of this study is organized as follows: the first section reviews the literature of reputation and its determinants. Section two presents the data and methodology used in this research. Finally, the last section analyzes the results. The paper closes with some discussion and concluding comments.

## **Literature review**

### **Corporate reputation**

The definition of reputation is very complex due to its intangible nature. For Fombrun and Van Riel [3], a corporate reputation is a collective representation of a firm's past actions and results that describes the firm's ability to deliver value outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and externally with its stakeholders. Mahon [4] has defined the reputation as a reckoning, an estimation, from the Latin reputatus - to reckon, to count over. The estimation in which a person, thing or action is held by others whether favorable or unfavorable.

Reputation Institute [5] has considered the reputation as a set of perceptions about the company of the different target groups related (stakeholders), both internal and external. It is the result of the company behavior developed over time and it describes its ability to distribute value to the mentioned groups.

Walker [6] has defined reputation as a relatively stable issue, specific aggregate, perceptual representation of a company's past actions and future prospects compared against some standard.

A strong reputation can attract more customers and build a loyal relationship with them because they believe that the corporations will always deliver high level of quality to sustain their future growth and higher price earning [7].

In the Lebanese economy where the market is very limited and competitive, the reputation has a vital function for the corporation. A strong positive reputation among investors, customers, suppliers, non-governmental organizations and employees will provide low cost of capital and high market value. Most Lebanese corporations have to manage their reputational risk especially when the reputation exceed the real quality of corporation. Also, the Lebanese corporations have to take into consideration the changing of expectations and beliefs of different stakeholders. Nowadays, the expectation of stakeholders has changed dramatically in the Lebanese market due to the political crisis and the economic recession which makes the task of managing reputational risk very difficult.

### **Banking reputation**

In the banking sector the management of reputation is very important. The updated version of banking regulation settled by Basel committee on banking supervision (BCBS) has considered indirectly the reputational risk as a part of operational risk. The operational risk was defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. So, a negative reputation in the banking sector can be the result of inadequate internal functional system such as delayed decision-making process or poor coordination between the different units. For example, the non-standardized transactions of the different branches of the same bank has decreased the reputation of Lebanese banks during the last crisis of 2019.

Moreover, a negative reputation can be the result of external uncontrollable event. The Lebanese political crisis, the economic recession and the deficit public budget of 2019 have decreased the trust among the Lebanese banking sector as it is considered the highest creditor for the Lebanese government. Thus, this critical situation has pushed the different customers of Lebanese banks to withdraw all their savings and make the banking sector to apply unofficial capital control which have led to decrease the reputation and the trust of Lebanese banking sector.

Lewis and Soureli [8], consider that reputation of banking sector is the result of good quality, condition of scale and the diversity of services/products. Ruiz et al., [2] has considered eight cognitive dimensions and two emotional dimensions to define the reputation in the banking sector. The eight cognitive dimensions of bank reputation are the quality of offer, customer care, innovation, employer branding, integrity, leadership, social action, reliability and financial strength. The last two emotional dimensions of bank reputation are the satisfaction and the trust.

Based on the above definitions and dimensions of bank's reputation, the Lebanese banking sector should focus on the offering of a wide range of financial products providing customers high satisfaction level. For Shapiro [9], good reputation is reflected by the perception of customer towards the quality and the variety of the business offer. Custom-made offers for customers are created those days by the Lebanese banks to satisfy their specific needs. The travel and plastic surgery credits with low interest level are some realistic examples.

The customer care is considered as a very important dimension to build a positive strong reputation [10]. In the circumstance of very competitive market such as the case of Lebanese banking sector with more than 65 banks, the friendliness of skilled employees and the direct relationship with high care level are the key component of loyalty and sustainable relationship between customer and bank. The creation of specific services and care for some elite accounts is booming nowadays in the Lebanese banking sector.

The innovation is very important for the reputation of the banking sector. Creating and introducing new type of services and financial products can boost the relevance and reputation of banks among their customers [11]. The Lebanese banks have introduced the new Tech innovation to create customized and personalized products. This type of innovation has contributed to increase the positive reputation of the Lebanese banking sector during the last decade.

The employer branding is a dimension of growing importance in the reputation of banking sector. Many researchers have considered this dimension as an antecedent of reputation. For example, Burke et al., [12] have revealed that the competencies of employees and the way the employers treat them affect the reputation of the corporation. Since years, the Lebanese banking sector have tried to outsource their training department by using international companies to spread positive signs for all the outside stakeholders. Moreover, Lebanese banks hire in leading positions some international talented persons who are known in the international banking sector.

The dimension related to the integrity is referred to honesty, transparency and responsibility. In the case of banking sector, the lack of transparency and honesty were considered one of the main reasons of the international financial crisis of 2008. Thus, Basel committee on banking supervision (BCBS) have called for increased transparency in banking sector. The actual crisis of 2019 in Lebanon and the public protests have called for more transparency from banking sector about the involvement of political exposed persons (PEPs) in corruptions but still this dimension needs a lot of regulation and development.

The existence of high skilled leaders at the top level of banking sector is very important for the reputation of Lebanese banks. Some Lebanese banks have positive reputation due to their top executive leaders who are known by their international public relation, by their skills, by their financial capacity and even by their political position. Thus, the professional leaders in banking sector are considered as intangible assets that can be reflected in strong positive reputation by creating a system of reputation transfer from the top executive leaders to the organization [13].

The corporate social responsibility (CSR) actions became a trendy in Lebanese banking sector. Nowadays, all the Lebanese banks have published their CSR program in their reports and their websites. The direct objective by applying the CSR is the improving of well-being for all the stakeholders and the indirect objective is to improve the reputation of banks by affecting positively the emotion of bank's customers. De Quevedo et al., [14] have confirmed that professional social activities with high impact on the society have a direct and positive influence on the reputation of organization.

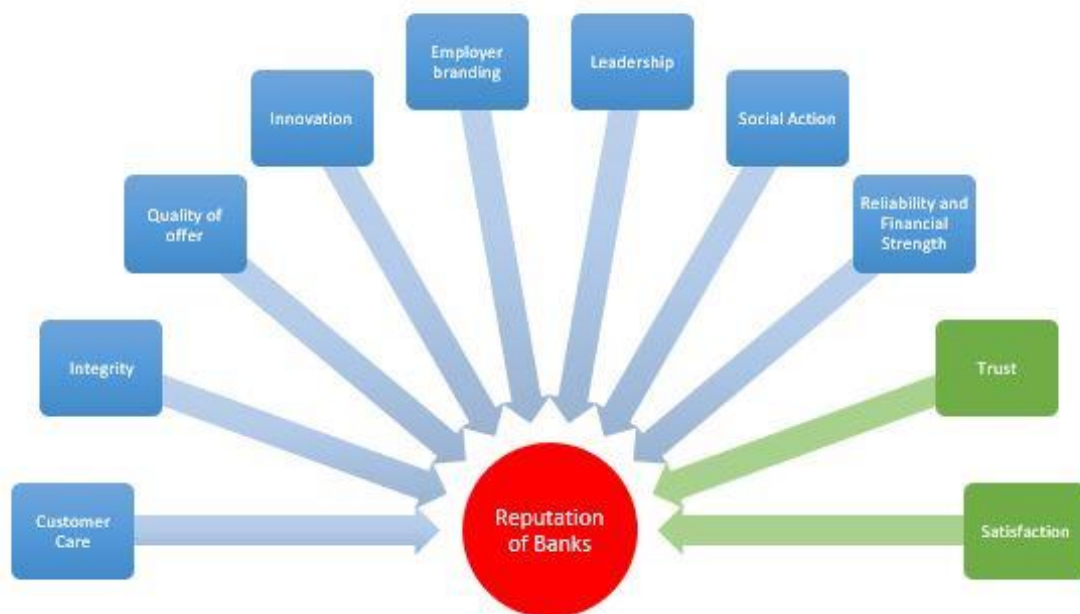
Reliability and financial strength are very important for the reputation of banking sector. Good performance and high level of financial stability and liquidity guarantee the sustainability of bank and send a positive sign for customers. Also, good financial indicators and positive financial data of bank are considered by customers as a source of trust and guarantee for their deposits. For Delgado et al., [15] good financial indicators in the past

lead the analysts to anticipate positive performance in the future which have positive impact on customers' expectation and corporate reputation. Since years, the Lebanese banks are well-known by their financial performance [16,17], but the last political crisis of October 2019 and the excess of funds withdrawals by customers threatened the stability of the banking sector in Lebanon.

Finally, beside the above cognitive factors that affect the reputation of the banking sector, trust and satisfaction also appear as antecedents of bank reputation. The contact of customers and the level of trust and experience that they acquired through their interaction with their bank help to configure the reputation of the banking sector. Many studies have revealed the same results in the context of corporations. For example, Giogia et al., [18] and Walsh et al., [19] reveal that the experience of customers and the degree of trust that they get are considered as factors affecting the corporate reputation of the banking sector.

### Sample, methodology and measurement scales

The model of this study is shown in Figure 1. Based on the study objective the dependent variable in this research is the reputation of the Lebanese banking sector during crisis period. Based on the literature review, the independent variables are divided into 2 subgroups. The first subgroup is related to cognitive dimension such as quality of offer, customer care, innovation, employer branding, integrity, leadership, social action, reliability and financial strength. The second subgroup is related to the emotional dimension such as satisfaction and trust. The multiple regression is used to reveal the determinants of reputation of Lebanese banking sector during crisis.



**Figure 1: Model of the study**

The population of the study consists of the customers of the Lebanese banking sector who have at least one year of interaction with their banks. The objective of having a minimum of two years of interaction between customers and banks is to give customers the opportunity to know and evaluate their banks. The customer should not be an employee or a shareholder of the bank to guarantee the fairness evaluation by the selected customer.

In this study, 621 customers from 9 Lebanese banks were selected. Then, the chosen sample was analyzed through a questionnaire. The distributed questionnaire was divided to three parts. The first part of the questions was addressed to assess the sociodemographic characteristics of the sample (age, sex, education, marital status, work status) and nature of relationship between customer and bank (period of interaction, type of contract and status of relationship). The second part of the questions was addressed to assess the reputation of bank. The last part of questions was addressed to assess the determinants of reputation presented in Figure 1 (quality of offer, customer care, innovation, employer branding, integrity, leadership, social action, reliability and financial strength, satisfaction and trust).

To identify all the variables of this study, a set of statements was extracted from the literature review. In total, 3 indicators were employed to measure the reputation, 38 indicators are used to measure the cognitive variables and 6 indicators are used to measure the emotional variables. All the used indicators are explored based on 5-point Likert type scale, ranged from 0 (strongly disagree) to 5 (strongly agree).

## Findings and data analysis

The results of Table 1 represent the social and demographic characteristics of the sample. The majority of the respondents are male (60%), and (57%) of them have between 30 and 50 years old. The results in Table 1 indicate that 66% of respondents are married and 34% are single. Moreover, (51%) of the respondents have a university degree, (38.3%) of them have professional studies while the rests have primary and secondary degree. The results of work status indicate that the majority of the sample are employees (57.9%), (16.7%) are self-employed and the rest of them are unemployed and retired. Finally, the results of the descriptive statistics show that the majority (44.3%) of the study's sample have between 2 and 5 years of interaction with their banks and just (5.4%) of the respondents have more than 10 years of interaction.

**Table 1: Descriptive statistics of the sample**

Socio-demographic data		Value	Percentage
Gender	Male	373	60
	Female	248	40
Age	Young: 30 years old and less	72	11.6
	Middle: between 30 and 50	354	57
	Old: 50 years old and above	195	31.4
Marital status	Single	411	66
	Married	210	34
Education	Primary	26	4.1
	Secondary	41	6.6
	Professional study	238	38.3
	University	316	51
Work Status	Employed	359	57.9
	Self employed	104	16.7
	Unemployed	116	18.6
	Retired	42	6.8
Period of interaction with bank	Between 2 and 5 years	275	44.3
	Between 5 and 8 years	162	26
	Between 5 and 10 years	151	24.3
	10 years and above	33	5.4

All the instruments have been validated by applying many tests and methods (multicollinearity test, Cronbach's alpha test and VIF). The results indicate the absence of multicollinearity and redundant information. The minimum value of Cronbach's alpha test is 0.8 for all the variables of the study which indicates high reliability and validity level.

Once the quality of the measurement instrument has been tested, the multiple regression model is assessed to reveal the determinants of the Lebanese banking sector reputation during the last political crisis and economic recession of 2019 in Lebanon.

**Table 2: Multiple regression result**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	Beta	Std. Error	Beta		
(Constant)	1.64	.552		3.766	.000
Quality of offer	2.101	.919	0.221	1.241	.001
Customer care	2.094	.895	.841	.536	.000
Innovation	.422	.290	.021	1.832	.238
Integrity	1.531	.608	.023	2.231	.000
Employer branding	1.051	.486	.025	2.104	.209
Leadership	.058	.007	.003	1.221	.417
Social action	1.115	.545	.034	2.411	.344
Reliability and financial strength	1.852	.715	.276	.731	.001
Satisfaction	2.408	.902	.307	.626	.000
Trust	3.014	.891	.248	.709	.000
R square	.588				
Adjusted R square	.623				

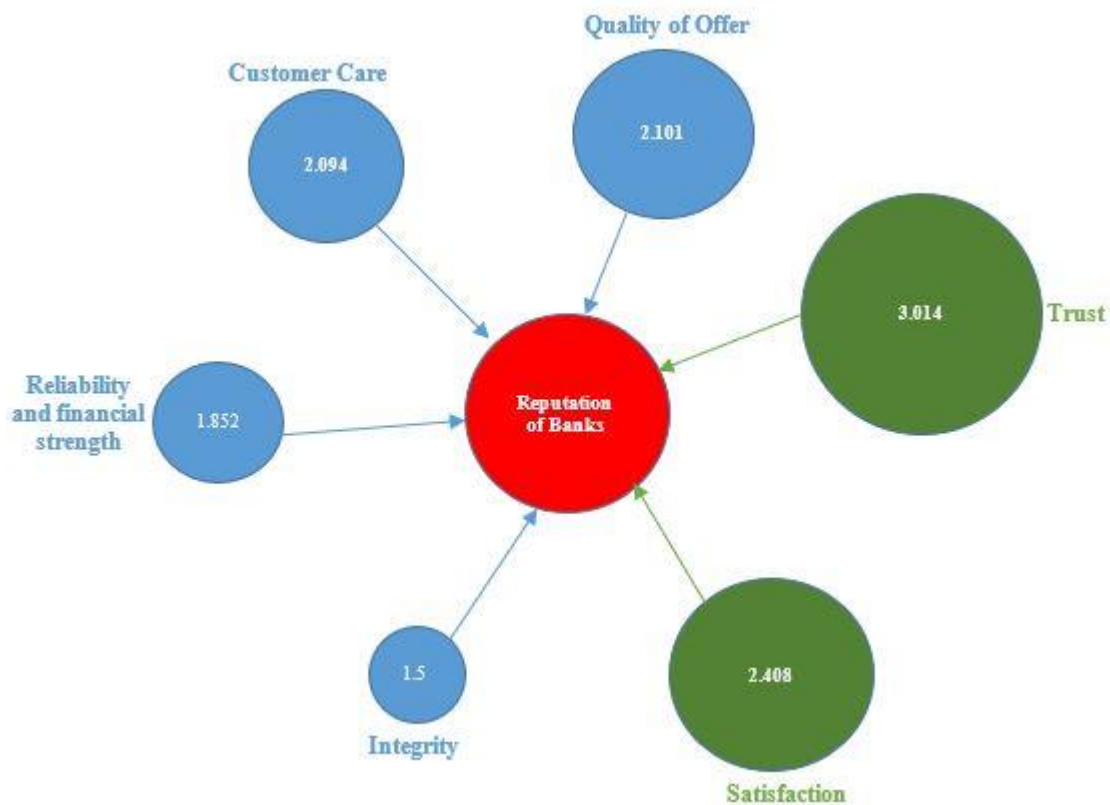
Dependent Variable: Reputation of bank

Predictors: (Constant), quality of offer, customer care, innovation, employer branding, integrity, leadership, social action, reliability and financial strength, satisfaction and trust

The results of Table 2 reveal that only 6 factors can be considered as determinant of reputation of the Lebanese banks during instability. The first determinant is the quality of offer. The results show a positive and significant impact of quality of offer (+2.101) on the reputation of Lebanese bank. The quality of offer and the variety of products of Lebanese banks should not be affected by any economic recession and political crisis. The Lebanese banks have to work on the satisfaction of their customers by tailoring their offers to be adapted with their needs even during crisis period.

Taking care of customers and being close to them during crisis is very important in the Lebanese banking sector. The results reveal that the customer care variable has a significant and positive (+2.094) impact on the reputation of the Lebanese banking sector. So, this approach of customer service helps banks to engage customers and build a loyal and strong relationship with them during instability.

Transparency and honesty are very important for the interaction between Lebanese banks and their customers especially during crisis and political instability. The results reveal that the integrity has a significant and positive (+1.531) impact on the reputation of banking sector in Lebanon. Thus, Lebanese banks have to be transparent and honest with their customers during crisis to build a sustainable relationship based on trust and loyalty.



**Figure 2: Results of the study**

Reliability and financial strength are the last cognitive variable affecting the reputation of the Lebanese banks. The results of Table 2 indicate that the reliability and financial strength variable has significant and positive (+1.852) impact on the reputation of the Lebanese banking sector. Thus, the results show that the Lebanese banking sector should spread the data of their financial performance and capital adequacy to ensure the trust of depositors during period of crisis and economic instability.

The results reveal a positive and significant impact of emotional variables on the reputation of Lebanese banking sector during political crisis and economic instability. Moreover, the results in Table 2 also indicate that trust and satisfaction have the higher impact on the reputation of Lebanese banking sector.

The results show a significant and positive impact of trust (+3.014) on the reputation. The Lebanese banks have to sustain the trust with their customer by communicating with them the news about the financial situation. Also, the Lebanese banks have to hold their promises after defining a clear rules of interaction with their customers.

As for the satisfaction, the results show a significant and positive impact of customer's satisfaction (+2.408) on the reputation of Lebanese banks. The Lebanese banks have to increase their capacity to stand out of the competition from the international banks located in Lebanon by satisfying their customer's needs.

Finally, the results of the multiple regression reveal positive and non-significant impact of innovation, leadership, employer branding and social action during political instability and economic recession. This result does not reveal the non-importance of the above variable



but in period of instability, Lebanese banks have to take care and concentrate their effort on the significant determinants of reputation and mainly: quality of offer, customer care, integrity, satisfaction, trust, reliability and financial strength.

## **Conclusion**

This research has studied the emotional and the cognitive determinants of the reputation in the Lebanese banking sector during the last period of political instability and economic crisis in Lebanon. The results obtained reveal that the reputation of the Lebanese banks is highly dependent on six variables. It was observed in this study a positive and significant impact of quality of offer, customer care, integrity, reliability and financial strength, satisfaction and trust on the reputation of the Lebanese banks during instability period. The emotional variables mainly trust and satisfaction are the most influential. The results showed that trust and satisfaction have the highest impact on the reputation of banking sector.

With the current economic and political situation in Lebanon, the Lebanese banks should work to rebuild their reputation by working on the trust and the satisfaction of their customers. They have to take some improvements and reforms with the help of financial authorities in Lebanon (Central Bank of Lebanon and Ministry of Finance) such as the increasing of the capital of bank, the raising of insured losses to bank depositors and the application of capital control system. Those actions are needed during crises period to limit the level of withdraws especially in foreign currencies and to increase the trust towards the national currency.

Moreover, the managers in the Lebanese banks have to be honest, clear and transparent with their customers. They should inform them about their current financial situation in the context of crisis because the past financial data can be less relevant. The customers of banks assume that the reputable banks are the ones who tell their customers the truth about the financial situation during critical period.

Finally, the Lebanese banks have to take care of their customers and to redesign their offers and their financial products to be adapted with their customers' needs during crises period. They have to be close to their customers and focus on the offering of new solid products less risky and adapted with the financial capacity of their customers.

This study has many limitations that have to be considered in future researches. The first limitation is related to the used methods to measure the different variables of the study. Each variable has to be more explored to prevent any kind of confusion by the sample. The second limitation is related to the size of sample which has to be more developed by considering all the 64 Lebanese banks. The final limitation is that the type, the classification and the size of the studied banks are not considered. This limitation has to be reviewed to assess the impact of banks characteristics in future researches.

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