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Surveying the reputation-regulation interface in the SABI industry: Perspectives of private banking customers

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Purpose: Bank reputations took a severe knock following the global financial crisis of 2007–2009. To get the global banking industry back on its feet, regulations existing at the time were strengthened and new ones were introduced. While the industry has come a long way in clawing back its reputation, research on the present state of reputations of some global banks suggests that these reputations are still underpinned by national regulators. In the South African context, it is not clear to what extent bank reputations are underpinned by the reputation of the main banking regulator: the South African Reserve Bank (SARB). This article looks at perceptions of private banking customers to ascertain whether they believe that bank reputations derive from the reputation of the regulator.

Design/methodology/approach: A quantitative research methodology was applied. Purposive sampling was used to collect data from 111 banking customers using a Likert scale. Four hypotheses on reputation-regulation relationships were then tested using the non-parametric Wilcoxon Signed Rank test.

Findings/results: The results show that regulation plays no role in how private banking customers perceive bank reputations.

Practical implications: This study highlights that there is little scope for banks to accrue 'reputational rent' by free riding on the reputation of the regulator. Banks must therefore take steps to proactively engage in their own reputation building exercises.

Originality/value: This research is the first to look at the reputation–regulation interface in the local banking industry from private banking customers' perspective. It highlights that each bank must work hard to build the reputation it desires.

Keywords: corporate reputation; deregulated markets; global financial crisis; information asymmetry; regulation; stakeholders.

Introduction

Information asymmetries inherent in market transactions may lead informed parties to try to exploit for their benefit, private information in their possession (Chae, 2005). To protect themselves from exploitation, information deficient parties may rely on an organisation's corporate reputation (CR) as the basis for engagement (Burke et al., 2018; Money et al., 2017; Romenti, 2010). According to Zhu (2019), the CR mechanism can be an effective way of overcoming the problem of information asymmetries in a market setting. Xin (2018) considers CR to be capable of eliminating most of the inefficiencies resulting from information asymmetries. A positive CR acts as a proxy of the unobservable permanent characteristics of an organisation (Ruiz et al., 2016; Zaby & Pohl, 2019), and is built through repeated satisfactory interactions between an organisation and its stakeholders (Burke et al., 2018; Dowling, 2016). It is a valuable asset that an organisation may lose if it acts opportunistically (Chun, 2005; Fombrun, 2012; Lange et al. 2011). Protection of reputation thus compels an organisation to become unwilling to act in ways that might jeopardise its CR. Having a good reputation thus acts as a signal of possession of a valuable competence (Macey, 2013) and in the absence of loads of information, such a reputation helps stakeholders to form reasonable expectations about product and/or services quality *ex ante*. A favourable CR is an enabling tool, the basis on which stakeholders can reasonably predict the quality of engagements with a firm (Burke et al., 2018), the competitiveness of its offerings (Fombrun, 2012), or the firm's likely future behaviour (Ruiz et al., 2016). A good CR is thus valued for its ability to signal an organisation's qualities that are not easily seen.

Alternatively, information deficient transacting parties can rely on regulation to lessen the harm that may arise from information asymmetry (Brammer & Jackson, 2012). Regulation in its various forms can perform the task of informing market participants of their counterparties' standing (Morrison & Wilhelm, 2015). Strong regulatory regimes impose relationship specific obligations on transacting parties (Wymeersch, 2019), ensuring that market players trust in the wider set of rule-based institutions (Brammer & Jackson, 2012) without having to make assessments about the trustworthiness of firms before engaging with them (Buckley & Nixon, 2009; Dupont & Karpoff, 2019). By creating the 'rules of the game' for organisations and their stakeholders, regulation reduces the negative effects of informational asymmetries (Von der Crone & Vetsch, 2009). Therefore, in a way reputation and regulation perform a similar function of constraining possible opportunistic predispositions of market participants by setting out parameters of acceptable behaviour.

Corporate reputation and regulation are research themes that have been covered extensively in literature mostly as separate domains. Few studies have focussed on the interplay between CR and regulation. In the South African context, no study has been found exploring the interface between CR and regulation in industry in general or the banking industry in particular. This study examines the CR-regulation interface in the South African Banking Industry (SABI) with the goal of determining the influence of regulation on the CRs of banks. With research in support and in opposition to regulation firmly established in literature, understanding the CR-regulation interplay within the SABI is important for ascertaining the level of consumer support or lack thereof for regulating banks. This research endeavours to investigate from the banking public's perspective, the influence of regulation on consumers' perceptions of bank's CR. The understanding generated will guide local banks in their CR management endeavours. This research thus contributes to CR management literature relevant for the South African context.

The article is organised as follows: the next section discusses literature on the institution of CR and the importance of CR in the banking industry. Then follows a discussion on the institution of banking regulation, key objectives of banking regulation, and the development hypotheses. Subsequent sections discuss the research method and empirical results, and the final section concludes.

Literature review

Banks have reputations that form the basis upon which stakeholders engage with them. Banking customers have expectations when they buy bank products or services, employees have expectations when they accept jobs, investors have expectations when they invest in the bank, shareholders and the society at large have expectations as well. Meeting these stakeholders' expectations is the foundation upon which a good CR is built. If a bank fails to live up to these expectations, stakeholders will review their perceptions leading to negative changes in behaviour towards the bank (Hill, 2020). Trust in the bank will be eroded, and customers, employees, and investors will want to leave (Eccles et al., 2007). To protect their own reputations, business partners will want to distance themselves from banks experiencing reputational problems, thus increasing bank-specific risks assigned by the market because of reputation loss. The only stakeholders to be attracted to a bank that is losing its reputation are reporters and regulators (Hill, 2020).

The institution of corporate reputation

What is corporate reputation?

Corporate reputation is a multidiscipline construct with traces in accounting, economics, strategic management, marketing, and public relations (Bronn & Buhmann, 2018; Kim & Chan, 2013; Lange et al., 2011). While it is a well-researched managerial-commercial construct, CR is still beset with multiple conceptualisations and definitions (Feldman et al., 2014; Dowling, 2016; Winn et al., 2008). It is considered a dynamic social construction formed on the basis of perceptions about an organisation. The perceptions are accumulated over time by a diverse group of stakeholders such as customers, business partners, investors, employees, regulators, and the society at large. These perceptions are continuously evaluated against standards of a particular institutional context each time a stakeholder directly or indirectly interacts with an organisation.

There is no consensus among scholars on the definition of CR and the CR definitional landscape continues to expand. A compilation of scholarly definitions of the construct by Dowling (2016) lists 50 definitions of CR. Some of the definitions are minor variations of one another (Podnar & Golob, 2017), while others are long and winding, and diverge increasingly from the dictionary definition reputation (Dowling, 2016). Following Deephouse (2000), King and Whetten (2008) and Pfarrer et al. (2010), a positive CR (the focus in this article) is defined as an intangible asset bestowed on an organisation by its stakeholders based on their perceptions of its potential to meet their expectations. As with any other asset, CR if deployed effectively, can enable an organisation to attain its commercial and other objectives. Accordingly, Cravens et al. (2003), Deephouse (2000), Illia and Balmer (2012) and Perez (2015), assert that a good CR aids an organisation in establishing and maintaining external networks of relationships that are critical for accessing material, financial, human or any other tangible or intangible resource. A positive CR is seen by Fombrun (2012) as a strategic resource that conveys to stakeholders, information about the intrinsic character of an organisation. It helps to draw consumers to purchase the firm's products, enhances customer loyalty, reduces customer defection rates, makes customers less resistant to premium prices, and encourages repeat purchases. A good CR is a risk-reduction mechanism (Bennett & Gabriel, 2001; Lange et al., 2011, Park & Rogan, 2019) that increases confidence in the organisation's products, significantly influencing customers' buying intentions, making it easier for an organisation to win new business while retaining existing customers (Chen et al., 2015; Fombrun, 2012). An organisation with a good CR is seen as more trustworthy: a key metric in the supplier selection processes of current and potential customers (Walsh et al., 2009). Organisations perceived to be trustworthy by suppliers, enjoy less stringent contractual and monitoring requirements leading to lower costs of business. Trusted organisations 'lock in' suppliers and customers creating market entry barriers for competitors. According to Turban and Cable (2003), a positive CR influences the size and quality of applicants' pool, making it easier for an organisation to attract, recruit, and retain more talented employees. Retaining talented employees is a prerequisite of sustaining competitive advantages. For Shamma (2012) and Bennett and Gabriel (2001), a favourable CR can protect an organisation during times of crises as reputation is viewed as a form of banked goodwill capable of cushioning the organisation in times of need. Because competition cannot easily replicate the intricate processes that produce reputations, a positive CR is a source of sustainable competitive advantages (Fombrun, 2012).

Many scholars (Burke et at., 2018; Dowling, 2016; Roberts & Dowling, 2002) regard CR as one of the most important intangible assets possessed by an organisation. Because it takes time to build a reputation but a relatively short time to destroy a good reputation, investing in protecting organisational CR is a prudent business function. Investing in CR is just as important as investing in property or equipment (Dupont & Karpoff, 2019) as it builds reputational capital: the present value of the improvements in net cash flows that arise when stakeholders engage in organisation supportive behaviours when they believe that the organisation will uphold its explicit and implicit contracts and will not act opportunistically to their detriment. Acting irresponsibly or in ways inconsistent with an organisation's CR will erode the reputational capital, that is, it increases costs of business or decrease in revenue flows as some stakeholders may become apprehensive in dealing with such an organisation. A threat of reputational loss thus represents an *ex post* penalty for organisational behaviour that deviates from implicit or explicit norms. It is in the best interests of any self-saving organisation not to engage in activities that may tarnish its CR in the eyes of its stakeholders. Having a good CR thus signals to various stakeholders that an organisation can be trusted to behave ethically because it faces sufficient prospects of *ex post* reputational loss if it behaves otherwise.

Corporate reputation in the banking industry

Corporate reputation, as a unique, intangible, and organisation specific asset, is key to any organisation whose existence as a business concern and long-term sustainability, rely on being trusted by various stakeholders (Burke et al., 2018; Dupont & Karpoff, 2019). This is particularly so for service-oriented organisations such as banks whose products are purchased based on reputation (Buckley & Nixon, 2009) because the intangibility of bank services makes it difficult for stakeholders to assess quality before purchase (Ruiz et al., 2016). Unlike manufacturing firms that can give lengthy product warranties to signal product quality, banks rely on CRs to signal their trustworthiness. Depositors are willing to deposit their hard-earned money with reputable banks on the belief that such banks are unlikely to defraud them and they (depositors) will be able to access their money in the future. According to Hill (2020), as an industry, banking is based on confidence and trust, of which (corporate) reputation is an antecedent, fundamental for attracting depositors, retaining customers, and attracting employees. Having a good reputation goes a long way in resolving problems of information asymmetries, allaying stakeholders' concerns especially when banking transactions have long-term implications. Maintaining a positive CR is thus a bank imperative because an erosion of CR for any reason, for example, a market, credit, operational, or a strategic event, can trigger a panic or a bank run, adversely affecting the ability of a bank to maintain existing business relationships, to establish new relationships, as well as limiting its potential to access different sources of funding.

Because the intermediation function exposes banks to a variety of stakeholder issues to levels unmatched in other industrial sectors, a bank's concern for its CR can induce it to remain committed to a costly action if such an action is considered by some stakeholders to be morally or socially desirable. In some instances, stakeholders' expectations:

> [*M*]ay go well beyond what a bank is legally obliged to do and may encompass a very wide spectrum of domains, from customer service to corporate citizenship all the way to outright macroeconomic responsibility. (Scandizzo, 2014, p. 58)

Failure to live up to such expectations may lead stakeholders to negatively change their perceptions of a bank (Burke et al., 2018; Dupont & Karpoff, 2019; Hill, 2020) triggering a negative adjustment in stakeholder behaviour towards the bank. Negatively changing perceptions in respect of any organisation, signals to all stakeholders that trouble is not far away (Zaby & Pohl, 2019). For a banking institution, a knee-jerk reaction to perceptions of trouble by depositors lacking the capacity to accurately assess the strengths of individual banks, is to rush and be first to withdraw their money from the banking system. This inevitably triggers a bank-run and its concomitant effects on the wider economy. The need to protect a positive CR may deter opportunistic behaviours that may yield short term gains for the banks.

For any industry, the importance of having a good CR can never be overemphasised. Such importance is however more pronounced in the banking industry (Hill, 2020) where a damaged CR will not only be of concern to a particular bank and its immediate stakeholders, but will be of concern to the wider economy. The central role played by the banking industry means that problems originating in that industry will permeate all economic sectors and damage real output. Some scholars (Burke et al., 2018; Von der Crone & Vetsch, 2009; Phillips, 2019) therefore call for stringent government regulation of the banking industry, arguing that the institution of CR while providing credible informal enforcement mechanisms that guard against opportunistic behaviour, is not enough to stop some unscrupulous conduct by private organisations, banks included. Examples of leading global banks caught in acts of disrepute abound: Wells Fargo (opening fictitious accounts), HSBC (facilitating transactions for Saudi Arabian banks with ties to terrorist groups), Bank of America, JPMorgan Chase, Wells Fargo, Citigroup (the sub-prime debacle), Barclays, the Royal Bank of Scotland, and UBS (London Inter-Bank Offered Rate [LIBOR] rigging). On the local scene, some banks caught on the wrong side of banking norms and regulations were forced into liquidations, sell-offs, mergers, and others were deregistered (Havemann, 2021). The main ones include: Saambou Bank (poor management of unsecured lending), Regal Treasury Bank (improper accounting practices), African Bank (poor management leading to liquidity problems), and VBS Mutual Bank (poor management, fraud, improper accounting). These examples and many others bolster the case for bank regulation.

The institution of regulation

Regulation is defined by Mitnick (1980) as 'the intentional restriction of a subject's choice of activity by an entity not directly party to or involved in the activity' (p. 5). It is premised on political motivations (the desire to re-distribute wealth and to safeguard the economic welfare of ordinary people), as well as on economic reasons (promoting stability of markets, equity of resource allocation, efficient use of resources; correcting market imperfections, constraining the rise of monopolies, and limiting monopolistic tendencies to abuse market power). Regulation endeavours to redress information asymmetries that exist between contracting parties, which usually disadvantages the information-deficient party.

There is, however, no consensus with regard to the merits or lack thereof of government intervention in the functioning of markets. Despite powerful arguments against government intervention, regulation in its many forms and guises, remains one of the most important functions of the state (Shleifer, 2005). Opponents of regulation contend that by its very nature, regulation is political, and political interference in operations of the market system is inefficient and makes any adverse situations worse. For example, Quintyn and Taylor (2004) contend that the major financial crises of the 1990s and early 2000s – the Finnish banking crisis, the Swedish banking crisis, the Russian financial crisis, the Asian financial crisis, et cetera – were worsened by political interference in the form of financial sector regulation. These scholars argue that political pressures not only weakened financial regulation in the said countries but also hindered regulators and supervisors from enforcing regulatory sanctions on banks that had run into trouble. Some critics contend that regulation is captured and is designed to serve the interests of industry and other special interest groups. According to the regulatory capture theory (Posner, 1974; Stigler, 1971), industries lobby politicians for the enactment of regulations favouring industry interests at the expense of wider public interests.

The alternative to regulation i.e., unrestricted or unregulated markets have serious shortcomings of their own. In fact, the 2007–2009 global financial crisis (GFC) is blamed on waves of economic deregulation that began in the United States of America (US) during the Presidency of Ronald Reagan, and over a number of years, the regulatory easing in financial markets culminated in the removal and/or reduction of restrictions that had kept US banks from excessive risk-taking (Baker, 2010). The collapse and near collapse of some of the world's biggest banks repudiated the notion that the market system is capable of self-regulating and thus government regulation is superfluous. In fact, the GFC succeeded directly in illustrating the limitations of the market-driven view of economic activity. The 'too big to fail' banks survived courtesy of government bailouts despite having been at the forefront in calling for non-involvement of government in market operations.

Regulation in the banking industry

The pervasive influence of the banking industry over an entire economy sees this industry being treated as a matter of public interest. Banks accept deposits from individuals and organisations (but offers no collateral to guarantee safe return), facilitate the smooth functioning of the payments and settlements systems, monitor, and manage assets to enhance liquidity provisioning, and function as important conduits for monetary policy transmission. Banking activities have important spill-overs effects cutting across all economic sectors making the banking industry far more important than its direct share in a country's gross domestic product (GDP) may suggest. In fact, banks influence economic growth, poverty alleviation, entrepreneurship development, labour market conditions, and the economic opportunities available to citizens (Barth et al., 2013). Given the banking industry's potential to benefit as well as to harm the entire economy, maintaining banking stability is 'a clear public good that justifies an elaborate framework of regulation and supervision' (Quintyn & Taylor, 2004, n.p.). A disturbance in key functions of banks could have major repercussions for an economy and thus to maintain their solvency, banking activities are tightly regulated through a regiment of laws and regulations enacted at country and international levels.

Forms of bank regulation include antitrust enforcement, asset restrictions, capital standards, conflict resolution rules, disclosure rules, product line entry restrictions, interest rate ceilings, and investing and reporting requirements. Banking regulation is mostly reactive with regulators' focus evolving in relation to the occurrence of crises and other economic ills that threaten the stability of banks. With each new banking crisis, the regulatory framework is changed or amended shortly thereafter (e.g., Basel I, Basel II & Basel III). It is the standard the world over to enact new banking legislation or to reorganise the existing regulatory environment following a major banking crisis (Mitic, 2020). The same argument is given by Diamond et al. (2017) who contend that the latest waves of regulatory changes in many jurisdictions are in response to the 2007–2009 GFC. Accordingly, Hill (2020) likens the bank regulatory environment to an 'arms race' in which banks produce new, increasingly complex products (e.g., derivatives, credit default swaps, collateralised debt obligations) and the regulators scrambling to design new regulations appropriate for the new products. It is thus not unreasonable for one to wonder whether regulators possess the requisite knowledge to effectively supervise and monitor banks.

Be that as it may, the banking industry is too important for any economy to leave it completely without government regulation. The GFC underscored the importance of a robust banking regulatory, supervision, and monitoring regime, for the well-functioning of an economy. The ability of the banking industry to 'outsource loss-bearing' to the entire economy while they internalise profits makes it imperative for authorities to intervene in this industry in order to ensure its safety and soundness. The efficiency with which the regulator accomplishes its tasks engenders trust (Hill, 2020) which buttresses the CR of the regulator. A good reputation of a regulator substitutes for the not so stellar reputation of the regulated entity (Von der Crone & Vetsch, 2009; Macey, 2013; Shapiro, 1983). Because a good reputation of the regulator is seen as rubbing off onto the regulated entities, reputation-free riders survive thorough scrutiny because stakeholders become less attentive to the reputational deficiencies of some firms, secure in the knowledge that they are dealing with regulated organisations. This leads Hsu and Bahar (2019) to regard regulation as a prerequisite condition for the establishment and maintenance of positive bank CRs. Hill (2020) concurs and states that '… banks rely at least partly on government regulation to bolster their reputations and attract stable deposits' (p. 540). And according to Brammer and Jackson (2012, p. 313), '… regulatory institutions present in different countries play an important role in shaping … firm reputations'.

Key facets of bank regulation in South Africa

The responsibility for registration and supervision of banks in South Africa is assigned to the SARB by the *South African Reserve Bank Act, 1989 (SARB Act)*, together with the *Banks Act*, the *Mutual Banks Act, 1993* and the, the *Financial Sector Regulation Act (FSRA), 2017*. These Acts, together with the regulations issued under the *Banks Act* (Banks Regulations), provide a comprehensive legal framework for banking supervision and monitoring in South Africa. The Acts provide for macro-prudential regulation by the SARB, and micro-prudential regulation by a prudential authority (PA), a juristic person under the administration of the SARB, accountable to the Governor of the SARB, and also with a direct reporting line to the Minister of Finance. The PA is tasked with a prudential mandate of overseeing the safety and soundness of banks and other financial institutions, with the aim of preventing risks that banks fail to meet their liabilities as they fall due. The PA executes its mandate through the application of effective and efficient international regulatory and supervisory standards, and best practices. The PA keeps itself informed and updated on international regulatory and supervisory developments by participating in as well as contributing to various international forums on financial regulation. Prudential rules typically focus on capital adequacy, loan loss reserve requirements, minimum cash reserve, liquidity requirements as well as on adequate levels of diversification of risk (SARB, 2019).

The FSRA also created the Financial Sector Conduct Authority (FSCA), a dedicated market conduct authority that oversees the business conduct of banks and all other financial institutions. The FSCA is among other things mandated to:

- enhance the efficiency and integrity of financial markets;
- promote fair customer treatment by financial institutions;
- provide financial education;
- promote financial literacy; and
- assist in maintaining financial stability (Nene, n.d.).

The PA and the FSCA are the primary regulators of the banking industry with other key regulators being the National Credit Regulator, the Johannesburg Stock Exchange (JSE), the Financial Intelligence Centre, SARS, National Treasury, and the Department of Labour. The efficiency and effectiveness of the banking regulatory framework is dependent on the expertise possessed by these national institutions.

Hypothesis development

It has been highlighted that no literature was identified that explores the interface between CR and regulation in the South African industrial context. Hence, this study examines the CR-regulation interface in the SABI from the perspective of the banking public. In doing so, the study uses a list of items in an instrument to measure CRs of large service organisations developed by Wepener and Boshoff (2015). The instrument has the following five items: emotional appeal, social engagement, corporate performance, good employer, and service points (see Appendix 1, 2 and 3). On recommendations from a panel of experts, the 'good employer' item is left out because (according to the experts) customers have little to go by in accessing conditions of employment within banks.

Emotional appeal

There are many viewpoints that are associated with what constitutes emotional appeal. The view of emotional appeal to a bank adopted here is that of a universal set of internal processes that are largely interconnected and hardwired, which arise in the mind of a customer when a specific bank is mentioned. Emotional appeal of a bank is grounded in the emotional, experiential side of associating with a bank. It is seen producing 'the feel-good effects' in customers regarding their bank. 'Emotional appeal attempts to stir up either negative or positive emotions …' (Kotler & Armstrong, 1994, p. 468) that motivate customers to remain in a relationship with their bank. Although emotional experiences have elements of cross-cultural similarity, they are acquired through socialisation processes, which are affected by existing institutions, for example, religious, governmental, or social. It is thus premised that the regulatory environment existing in a particular context will impact emotions of members of that society. It can therefore be reasonably inferred that the emotional appeals giving rise to the positive CRs of banks are partly shaped by the prevailing regulations for the banking industry. The researcher however, holds the view that the impact of regulation on a bank's emotional appeal to customers, and therefore its CR is limited. In fact, regulation is seen as inclining to replace consumers' awareness of the intrinsic characteristics of banks (Von der Crone & Vetsch, 2009). The researcher therefore surmises that regulation may actually reduce the emotional appeal of a bank, and the following hypothesis thus arises:

> **H1:** Regulation has no significant effect on a bank's emotional appeal to its customers.

Social engagement

The term social engagement is commonly used to refer to an individual's and/or organisation's degree of participation in the activities of a community within which it exists (Courtois, 2017). In business contexts, social engagement is a strategic process with specific purposes, premised on actions that connect the organisation to its stakeholders. The actions may include participating as a member of, volunteering for, and donations in cash or kind to individuals, social organisations, or community at large, aimed at addressing issues affecting the well-being of the particular community. Social engagement can aide an organisation in knowledge gathering, marketing, human resource management, and legitimisation (Clarke & Boersma, 2016). Building solid relationships between business and society is critical for sustained competitiveness (Porter & Kramer, 2011), and when properly executed, social engagement can help an organisation to become a more socially responsible organisation solidifying its relevance to a community (Courtois, 2017).

Social engagement involves any of following four key elements: activity, interaction, exchange, and no compulsion (Courtois, 2017). South African banks are seen actively engaging with communities in supporting education, community development, health, socio-economic development, children's welfare, arts and culture, sport development, and environmental programmes. Acting without an outside force obliging the banks to engage in these activities that are sometimes complex, and requiring dedication of resources such as time, money, and skilled people, buys the banks social capital and enhances their appeal to stakeholders. If stakeholders deem a bank's social engagements as inadequate, 'they may withdraw their support during a crisis, prolonging the effects of a crisis, or intensifying the threat associated with an event' (Ulmer, 2001, p. 594), thus negatively affecting an organisation's CR. Hill (2020) asserts that banks that fail to live up to customers', shareholders', and other stakeholders' expectations, inevitably incur reputation losses.

Social engagement is not an end in itself, but rather a means to support an organisation's endeavours to nurture valuable relationships and build positive CRs with the stakeholders. Positive CR ultimately results in improved business performance (Roberts & Dowling, 2002). It is therefore construed that social engagement by banks is a strategic business move undertaken with a long-term view of securing a bank's 'social license to operate' (King & Whetten, 2008), avoiding reputational loss (Hill, 2020), and growing a bank's positive CR and the attendant stakeholders' profitability. Regulation is thus seen playing only a minor role in the banks' strategic orientations centred on social engagement. The following hypothesis thus arises:

> **H2:** Regulation has no major influence on customers perceptions of a bank's social engagement activities.

Corporate performance

Corporate performance is concerned with the quantification of the efficiency and effectiveness of an organisation's activities. It is associated with diverse aspects of an organisation's overall well-being, and is generally assessed in terms of financial measures through the use of common financial ratios: operating profit margin, net profit margin, return on equity, return on assets, etc. However, as new theories of the firm are emerging, there is growing emphasis on the need to reassess measures of corporate performance and adopt broader perspectives that encompass non-financial measures. With values of some of the world's largest corporations made up of anywhere between 40% and 75% off-balance sheet items (Cole, 2006; Schwaiger et al., 2011), support for adopting more comprehensive strategic corporate performance measures is expected to grow. As a result, companies have begun to incorporate in their annual reports, non-financial measures, such as product or service quality, customer satisfaction, employee engagement, market share, and innovation (Jackson et al., 2019; Tsagas & Villiers, 2020). According to Banker et al. (2000), non-financial measures are leading indicators of future financial performance, one of the precursors of a positive reputation.

While disclosure of non-financial measures is not mandatory, companies listed on the JSE are expected to include these measures in their reports. Voluntarily providing information that enables stakeholders to have deeper understanding of both the material impact of a business on the environment and society, as well as the impact of society and the environment on a company shows a level of transparency that engenders trust and with trust, reputation follows.

Customers' evaluations of a bank corporate performance based on non-financial measures will be affected by regulation only to very low levels of significance, if at all. Regulation does not prescribe minimum service standards for banks, has no effect on customer satisfaction, does not compel banks to engage with employees, has no effect on employee satisfaction and motivation, and certainly has no effect on a bank's level of innovation and product development. The researcher proposes that any positive evaluation by customers on corporate performance is purely because of a bank's competence and not its regulation. Regulation can however affect financial performance by restricting a bank from engaging in some risky activities even though these may have the potential to generate income for a bank. The researcher's view therefore, is that regulation constrains corporate performance, at worst impacting CR negatively. The following hypothesis thus arises:

H3: Regulation has no significant influence on customers' perceptions of a bank's corporate performance.

Service points

Service points are the platforms providing for the interface between an organisation and its customers (and other stakeholders). For banks, the service points include: face-to-face over the counter, Internet, mobile devices, automated teller machines (ATMs) and points of sale, social media, electronic and print media, etc. The choice of service points and how banks conduct themselves during interactions with customers is entirely at the discretion of the banks with a key regulatory requirement being that banks should ensure that customers private information is safeguarded. Customers also engage with their banks through a medium that is most convenient to them at a particular point in time. In either case, regulation has minimal effect on the customer–bank interactions. Customers' evaluations of the efficiency, effectiveness, and suitability of service points are thus seen to depend purely on the competences of a bank, with each bank aware of the dangers of falling behind competition in the provision of appropriate service points. The researcher proposes that having efficient and effective service points is a competitive imperative negligibly affected by regulation. The following hypothesis therefore arises:

H4: Regulation has little to no effect on customers' perceptions of the efficiency of a bank's service points.

Methodology

Research approach

The aim of this quantitative research is to ascertain perceptions of the South African banking public with regard to the relationship between CR and regulation. The research is evaluative and the required data were collected by using an instrument developed on the basis of previous research. The Statistical Package for the Social Sciences (SPSS) version 25.0 software was used for the statistical analysis.

Measurement instrument

The questionnaire used for data collection was designed following an instrument developed by Wepener and Boshoff (2015) to measure reputation perceptions. However, because the intention of this study was to ascertain the extent to which reputation perceptions are influenced by regulation, significant modifications were made to the original Wepener and Boshoff instrument. In doing so, we took note of the advice by McDonald (2005) that an instrument developed by one researcher may not have construct validity in another line of inquiry. A two-stage instrument validation process was thus undertaken. In the first stage, two reputation management consultants were requested to review the instrument and their comments and suggestions were considered. The feedback from the review process was used to improve the measuring instrument and saw 15 items remaining unchanged, 3 reworded to improve clarity, 4 removed, and 2 new items were added. The resultant instrument had 20 Likert items grouped into 4 Likert scales: emotional appeal (4), social engagement (4), corporate performance (6), and service points (6). The scales were 5-point Likert scales anchored at 1 (strongly disagree) to 5 (strongly agree).

The second stage pretested the instrument to further purify the measurement items, assess content validity, and to ensure that the items pool reflected the desired construct. The instrument was administered on a sample of 31 individuals chosen on the basis of convenience sampling. The sample consisted of the researcher's close contacts and professional acquaintances. All participants were made aware that this was a pre-run to assess the ease with which the instrument would be understood during the actual survey. The initial response rate was 38% but went up to 94% following e-mail and telephonic reminders to all sample members. Two respondents did not complete the questionnaire.

Reliability tests of the scales indicated that internal consistency was acceptable with Cronbach's alphas well above the 0.7 general cut-off level for reliability (Hair et al. 1998). The Cronbach's alphas were 0.931 for emotional appeal, 0.875 for social engagement, 0.919 for corporate performance, and 0.946 for service points. All items appeared worthy of retention, as deletion of any one from any scale would have caused the alphas to decline.

Sampling and data collection

The researcher gathered survey data over a 3-months period (June to August 2021) mostly from MBA students enrolled with business schools of universities based in Gauteng Province of South Africa. The sampling method was purposive, chosen based on accessibility and a belief that the response rate from such a sample was likely to be high. An on-line questionnaire was sent to 150 potential participants. Clicking a URL link embedded in the invitation e-mail indicated consent and directed respondents to the on-line questionnaire. Two e-mail reminders were sent to all the initial recipients of the invite encouraging any non-respondents to participate. At the end of the data collection period, 111 fully completed and usable questionnaires were received. On average, it took respondents 6.36 min to complete the survey. At 74%, the response rate was high in line with the researcher's initial expectation. Of the 111 respondents, 60 (54.1%) were females and 51 (45.9%) were males. The age distribution of the sample was < 30 years: 40 respondents (36%), 31–50 years: 63 (57%), and > 50 years: 8 (7%). The highest academic qualifications for the respondents are: 44 (40%) have a diploma or a bachelor's degree, 41 (37%) an honours degree, 23 (21%) a master's degree, and 3 (2%) are PhDs.

Data analysis

The researcher began by assessing the Likert scales data for conformity with normality assumptions. Shapiro–Wilk's tests ($p > 0.05$) (Shapiro & Wilk, 1965; Razali & Wah, 2011) and visual inspections of histograms, normal Q-Q plots and box plots showed that the scales data did not approximate normal distributions. The skewness is 0.771 with a standard error of 0.229 and the kurtosis is -0.575 with a standard error of 0.455 for emotional appeal; 0.863 (SE = 0.229) and -0.565 (SE = 0.455) for social engagement; 0.928 (SE = 0.229) and -0.654 (SE = 0.455) for corporate performance, and 0.774 (SE = 0.229) and -0.931 (0.455) for service points, respectively. With the scales showing significant and severe departure from normality, we could not perform parametric tests, which are generally regarded as more robust (Harpe, 2015). The researcher thus proceeded to analyse the data using the non-parametric Wilcoxon Signed Rank test. While acknowledging the lack of robustness compared with parametric tests, the test was deemed sufficient as it was geared towards testing hypotheses as opposed to estimation of effects.

Test results

Four hypotheses were proposed for examination in this study. These were tested to evaluate individual banking customers' perceptions of the influence of regulation on bank reputations. As earlier indicated, each hypothesis referred to a specific attribute giving rise to perceptions of bank reputation.

> **H1:** Regulation has no significant effect on a bank's emotional appeal to its customers.

The observed median is 2 compared with the hypothesised median of 4. With the test statistic at 133.5, the SE at 307.919, and $p = 0.000$, the one-sample Wilcoxon signed rank test indicates that the data are highly significant and consequently H1 is accepted.

> **H2:** Regulation has no significant influence on customers perceptions of a bank's social engagement activities.

This hypothesis is supported. The one-sample Wilcoxon signed rank test indicates that the data are highly significant. The observed median is 2 and the hypothesised median is 4. The test statistic is 134, the SE is 316.6, and $p = 0.000$.

> **H3:** Regulation has no significant influence on customers' perceptions of a bank's corporate performance.

The observed median, hypothesised median and test statistic are 2, 4 and 186, respectively. The SE is 316.79 and $p = 0.000$. H3 is thus supported.

> **H4:** Regulation has little to no effect on customers' perceptions of the efficiency of a bank's service points.

This hypothesis is also supported. The test statistic is 337, the SE is 334.87 and $p = 0.001$.

Discussion and managerial implications

According to Brammer and Jackson (2012), regulation and institutional characteristics of countries play important roles in shaping CRs. One would therefore expect this to be the case in the SABI, wherein the primary regulator, the SARB has a stellar reputation that should be seen rubbing-off onto the banking industry. However, as the results of this research have shown, at least one stakeholder group, private banking customers, see a minimal role for the SARB in shaping banks' reputations. The results suggest that bank reputations emanate from the banks' own initiatives and engagements with the banking public. The impetus to maintain and grow bank reputations therefore falls on the banks themselves and to this end, the study has three management implications.

Firstly, understanding the economic, social, and/or environmental factors influencing customer's reputation forming perceptions, starts with the banks valuing what their customers value. Incorporating into business activities, values that customers can relate to, creates positive attitude towards a bank allowing for deeper emotional appeal. Because emotions are important factors influencing customers' perceptions, attitudes, and other behavioural outcomes (Solomon, 2018), harnessing these for reputation enhancement is important. When a bank becomes intuitively perceived, more customers will want to remain committed while non-customers may want to switch. On the other hand, if consumers cannot relate to the bank, its offerings, and what they believe to be its core values, they might not patronise it. There is a need therefore, for bank managers to present and/or promote values about their banks that resonate with values espoused by their existing as well as target customers.

Secondly, there are numerous touchpoints between a bank and its customers. Failure at any one of these points can result in desired service levels not being achieved with detrimental effects on reputation. Managers must therefore ensure that every customer-bank interface, be it mundane, such as call responsiveness, nature and manner of welcoming, ease of use and access to electronic banking platforms, to the insightful understanding of the commerciality of customers' needs, and the way these are met, is geared to positively impact bank reputation. To this end, having a service-point map, can afford significant insights for management in understanding areas where bank reputation can be enhanced.

Lastly, only a few customers are fully aware of the vast spectrum of activities their banks are engaged in. Thus, the perceptions giving rise to a bank's reputation are formed on the bases of inadequate knowledge. There is need therefore for banks to effectively tell the stories of their products, their innovations, the ease of switching between banks, the ease of transacting without using bank branches, and the various digital advancements available that make banking easier.

Consumers will only come to know about these features when they are packaged, advertised, and presented in appealing ways.

Limitations

Two key limitations in this research are noteworthy. While our sampling approach resulted in a fairly large sample and a remarkably high response rate, the sample was not fully representative of the ordinary banking customer. Representativity was sacrificed for ease of access and high response rate. The research also focussed on opinions of one stakeholder group: private banking customers, out of the many stakeholders that a bank has. Also, our definition of regulation excluded regulation by many other statutory entities to exclusively focus on the regulation by the SARB. The findings are thus limited to the context of this research. Other researchers may wish to replicate the study using significantly diverse samples of banking customers or stakeholders. Only through multiple repetitions of similar studies can external validity of conclusions herein be reinforced. Despite these limitations, this study contributes to a better understanding of the relationship or lack thereof, between bank reputation and bank regulation from customers' perspectives. The study has shown that consumers see bank reputation solely as an outcome of a bank's actions. We conclude by opining that there is no 'reputation rent' that accrues to any bank that may want to free-ride on the reputation of the banking regulator, that is the SARB. Each bank must work diligently to build and grow its reputation with private banking customers.

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Competing interests

The author declares that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

Author's contributions

S.M. is the sole author of this article.

Ethical considerations

Ethical clearance to conduct this study was obtained from the North-West University Economic and Management Sciences Research Ethics Committee (EMS-REC) (No. NWU-00892-21-A4).

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Data availability

The data that support the findings of this study are available from the corresponding author, S.M., upon reasonable request.

Disclaimer

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of any affiliated agency of the author, and the publisher.

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Appendix 1

Reliability

Scale: Emotional appeal

TABLE 1-A1: Case processing summary.

		N	%
Cases	Valid	29	100.0
	Excluded*	0	0.0
	Total	29	1000

*, Listwise deletion based on all variables in the procedure.

TABLE 2-A1: Reliability statistics.

Cronbach's alpha	*N* of items
0.931	4

Reliability

Scale: Corporate performance

TABLE 3-A1: Case processing summary.

		N	%
Cases	Valid	29	100.0
	Excluded*	0	0.0
	Total	29	100.0

*, Listwise deletion based on all variables in the procedure.

TABLE 4-A1: Reliability statistics.

Cronbach's alpha	*N* of items
0.919	6

Reliability

Scale: Social engagement

TABLE 5-A1: Case processing summary.

		N	%
Cases	Valid	29	100.0
	Excluded*	0	0.0
	Total	29	1000

*, Listwise deletion based on all variables in the procedure.

TABLE 6-A1: Reliability statistics.

Cronbach's alpha	*N* of items
0.875	4

Reliability

Scale: Service ponits

TABLE 7-A1: Case processing summary.

		N	%
Cases	Valid	29	100.0
	Excluded*	0	0.0
	Total	29	100.0

*, Listwise deletion based on all variables in the procedure.

TABLE 8-A1: Reliability statistics.

Cronbach's alpha	*N* of items
0.946	6

Appendix 2

Nonparametric tests

TABLE 1-A2: Hypothesis test summary.

	Null hypothesis	Test	Significance. *,†	Decision
1	The median of COMPUTE Emotional_ Appeal=MEAN(Q1,Q2,Q3,Q4) equals 4,00.	One-Sample Wilcoxon Signed RankTest	0.000	Reject the null hypothesis.
2	The median of COMPUTE Social_ Engagement=MEAN(Q5,Q6,Q7,Q8) equals 4,00.	One-Sample Wilcoxon Signed RankTest	0.000	Reject the null hypothesis.
3	The median of COMPUTE Corporate_ Performance=MEAN(Q9.Q10,Q11,Q12,Q13,Q14) equals 4,00.	One-Sample Wilcoxon Signed RankTest	0.000	Reject the null hypothesis.
4	The median of COMPUTE Service_Points=MEAN(Q15, Q16,Q17,Q18,Q19,Q20) equals 4,00.	One-Sample Wilcoxon Signed RankTest	<.001	Reject the null hypothesis.

*, The significance level is 0.050.
†, Asymptotic significance is displayed.

Appendix 3

One-Sample Wilcoxon Signed Rank Test

COMPUTE Emotional_Appeal=MEAN(Q1,Q2,Q3,Q4)

TABLE 1-A3: One-sample Wilcoxon Signed Rank Test summary.

Variable	Value
Total N	111
Test statistic	133.500
Standard error	307.919
Standardised test statistic	-8.432
Asymptotic significance (2-sided test)	0.000

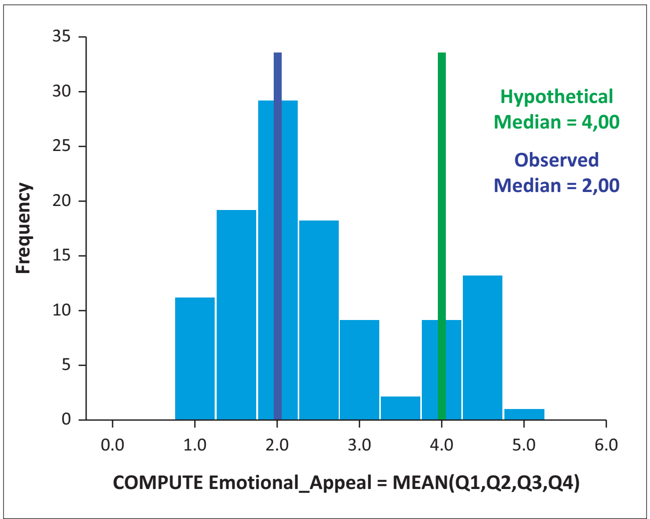

FIGURE 1-A3: One-sample Wilcoxon signed rank test.

COMPUTE Corporate_Performance=MEAN(Q9,Q10,Q11, Q12,Q13,Q14)

TABLE 2-A3: One-Sample Wilcoxon Signed Rank Test Summary.

Variable	Value
Total N	111
Test statistic	186.000
Standard error	316.790
Standardised test statistic	-8.364
Asymptotic significance (2-sided test)	0.000

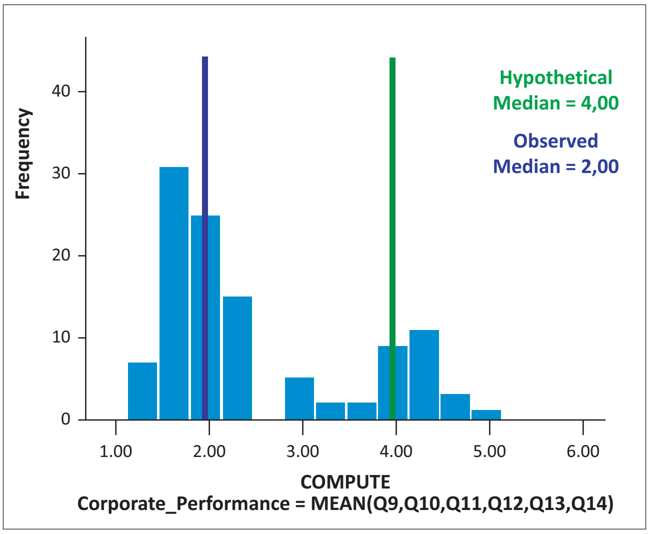

FIGURE 2-A3: One-sample Wilcoxon signed rank test.

COMPUTE Social_Engagement=MEAN(Q5,Q6,Q7,Q8)

TABLE 3-A3: One-sample Wilcoxon Signed Rank Test summary.

Variable	Value
Total N	111
Test statistic	134.000
Standard error	316.602
Standardised test statistic	-8.533
Asymptotic significance (2-sided test)	0.000

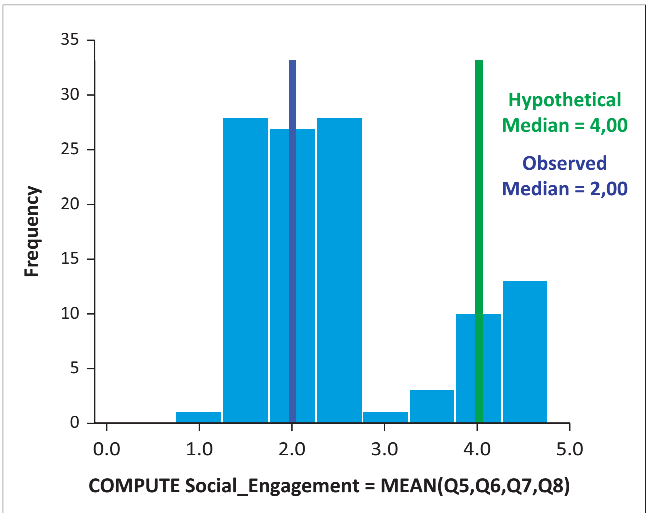

FIGURE 3-A3: One-sample Wilcoxon signed rank test.

COMPUTE Service_Points=MEAN(Q15,Q16,Q17,Q18, Q19,Q20)

TABLE 4-A3: One-sample Wilcoxon Signed Rank Test summary.

Variable	Value
Total N	111
Test statistic	337.000
Standard error	334.874
Standardised test statistic	-8.109
Asymptotic significance (2-sided test)	<.001

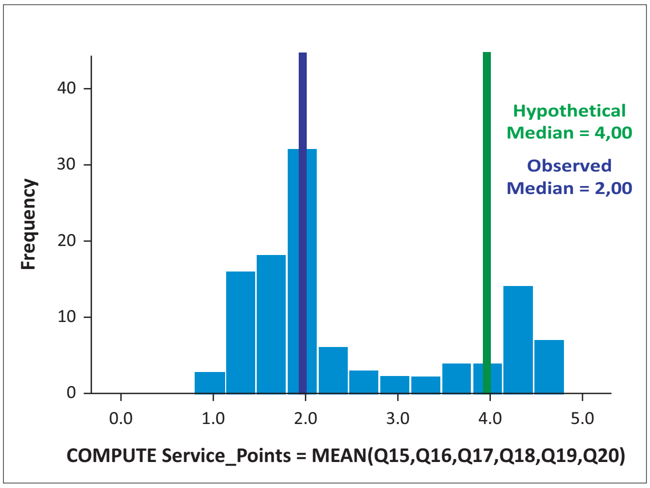

FIGURE 4-A3: One-sample Wilcoxon signed rank test.