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The Impact of Bank Reputation on Bank Choice and Loyalty in the SME Sector

Summary

The research named „The impact of bank reputation on bank choice and loyalty in the SME sector" seeks to answer the question of which factors are impacting the decision of the SMEs while choosing its account management bank. In addition, the study focuses on assessing the satisfaction with their current core banking partner. Focusing especially on bank reputation factor. To understand the issues mentioned above, the responses to the questionnaire survey are decisive, which are presented by using diagrams, statistical methods and the SPSS program. The answers which we gained from analyzing the questionnaire are used to explain the different possibilities. All in all, it explores, quantifies and analyzes the circumstances under which the SME make decision to use the account management services at a certain commercial bank. As results we discovered correlation between the bank reputation and customers loyalty, customer satisfaction and the term of banking relations.

Keywords: banking habits, bank reputation, bank loyalty, customer satisfaction

Jel-code: G200

Introduction

The main objective of the topic of this study is to present the impact of banking reputation on the banking choice habits of small and medium-sized enterprises (hereinafter: SMEs), and to explore the factors that influence customer satisfaction and loyalty of SMEs. The data obtainedduring the research are analyzed with diagrams and processed on the basis of statistical methodsby using the SPSS program.

At the beginning of our research, we established three hypotheses, which are the followings:

H1: Businesses that have kept accounts with the same bank for more than 5 years have higher level of satisfaction, greater loyalty and find it to have better reputation for their financial partner.

H2: Companies with multiple banks are more likely to switch banks than single-bank companies.

H3: Reputation is more important for the top executives or executive-and-shareholders of companies than for other employees responsible for banking decisions.

Literature Review

According to VOSZ.hu (2023) data, there were more than 1 million businesses operating in Hungary at the end of 2022. According to Act CL of 2017 on the Rules of Taxation, every domestic legal entity must have at least one domestic payment account, which clearly impliesthat every company in Hungary must have financial institution account management relationships and experience.

According to Act XXXIV of 2004 on Small and Medium-sized Enterprises and Supporting their Development, SMEs are all micro, small and medium-sized enterprises which:

1. has a total number of employees of less than 250, and
2. its annual net turnover is a HUF amount equivalent to up to EUR 50 million, or its balance sheet total is a HUF amount equivalent to EUR 43 million or less. (Law Library,2024)

According to the publication of the Hungarian Central Statistical Office [KSH] (2023), the stock of the SME sector has increased one and a half times in 10 years, which means that whilein 2013 there were only 609,466 small and medium-sized enterprises operated in Hungary, butby the end of 2022 it had reached to 974,390.

During the processing of domestic and foreign literature, the authors identified several factorsthat influence bank choice not only in Hungary, but throughout Europe, and which are closelyrelated to each other. These factors can be classified into the following groups:

1. Reputation
2. Pricing
3. Digitalization
4. Sustainability
5. Economic and political factors

However, the present study only aims to point out reputation and closely related factors, and toshow the strength of the relationship between them. Related factors include satisfaction, loyaltyand customer focus.

It is important to emphasize, however, that the literature distinguishes between corporate reputation, brand and image, and several authors have dealt in detail with their definition and their relationship to each other, but the present study does not aim to examine them, so it considers these concepts as synonyms.

Corporate image is often interpreted as an image formed in consumers on the basis of various impulses. This definition was first applied by Fombrun (1996), but since then several authors and scholars have based their work on his position and conceptualization. (Dowling, 2004; Casoleas et. al., 2001; Hatch et. al., 2003)

The banking sector is a particularly competitive sector and lacks tangible products whose properties are directly observable by consumers. Hence, good corporate reputation is acompetitive advantage that allows financial institutions to differentiate themselves from their competitors, thereby increasing their chances of retaining existing customers and acquiring new customers to increase their short- and long-term success. (Bravo et al., 2009)

The perception of a financial institution significantly influences the choice of banks bycorporate clients, since the dimensions of corporate reputation have a direct influence on this factor. It is also important to mention that brand image can

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also be used to improve the social and ethical dimensions of corporate reputation, thereby influencing customers' choice of banks. (Narteh - Braimah, 2019).

In addition, some studies on generally understood provider selection (including corporate reputation) have already assumed that there is a direct link between corporate reputation andbank selection. (Mokhlis, 2009)

According to a study by Bontis et al. (2007), a bank's reputation plays a crucial role in shaping corporate client decisions when choosing a financial institution, and confirms that corporate reputation has a direct impact on customer loyalty, service recommendations and customer satisfaction in the corporate sector. In addition, the reputation of a bank is closely linked to itsimage, which significantly affects the perception of both existing customers and prospect1 customers. (Bravo et al., 2009)

Based on the above, it should come as no surprise if we state that one of the main goals of companies is to build a strong corporate image that is associated with a positive corporate image, since companies with this image on the market manage to attract stakeholders the most,neutralize the activities of competitors and, finally, increase their profits. (Fombrun and Shanley, 1990)

Several studies have shown that emotional appeal, financial institution performance, customer focus, customer acquisition efficiency and quality of service directly influence bank selection. In general, these results are consistent with previous studies that have found a positive relationship between corporate reputation and bank selection. (Narteh - Owusu-Frimpong, 2011; Walsh - Beatty, 2007; Devlin - Gerrard, 2004)

The subprime crisis that broke out in 2007 highlighted the dysfunction of banking regulation. One of the tools for this was the disciplining power of the market with regard to Basel II capitalregulation, which required banks to be more transparent. These transparent factors facilitated the choice of bank as an objective decision. (Bartakovich, 2011)

There is ample evidence in the service marketing literature that image and reputation significantly affect customer loyalty. This is because factors such as reputation become especially important in services where there is little physical evidence to evaluate services. (Hardaker - Fill, 2005; Bromley, 2001)

Several studies have shown that the cost of acquiring a new customer is five times more expensive than retaining an existing one, and 50 to 100 times more expensive to recover a lost customer. (Ofori et al., 2017; Boonlertvanich, 2019; Zietsman et. al., 2019)

The work of Ongena - Smith (2000), which defined the variables determining the length of banking relationships, is considered decisive in the literature on this topic. Most research, including Özkan et. AL. (2020) also confirmed that bank image, quality of service and customer satisfaction have an influencing effect on loyalty to the bank.

In the Hungarian literature, Belházyné et al. (2018) examined bank selection habits in addition to other questions, e.g. cash use, within the framework of a questionnaire survey covering morethan a thousand enterprises. The results of the questionnaire are illustrated in Figure 1 below.

As shown in the above data, the proximity of a bank branch is the main factor determining thechoice of bank for SMEs as well as micro-enterprises. In the study, the authors found that thiswas due, among other things, to significant cash use. On a positive note, due to the increasingrole of online services in connection with bank selection, the physical location of the bank doesnot matter for about a quarter of the total number of customers.

Method

In this research, the authors rely on primary data collection methods, which allow them to obtain first-hand information. The aim of this publication is to collect information about the group of enterprises that can be classified under the Hungarian SME Act. During the quantitative procedures. A structured questionnaire was used to generate numerical data from the information received.

The survey was conducted online between 8 January 2024 and 15 February 2024.

In order to make the comparison and analysis more illustrative and easier to understand, the authors plot the given issue with the help of tables and graphs, most of which were created using Microsoft Office programs (Word and Excel). Furthermore, the results of each statisticalmethod were obtained using the SPSS software package.

A total of 103 people completed the questionnaire, of which 87 were deemed suitable for further analysis.

Out of the 87 people, financial managers represent 33%, 31% were in executive positions, 21%were executive and shareholder at the same time, and the remaining 15% connected to other employees.

The authors have also collected the data that shows how long these entities are existing in the market. Most of them (52%) are present for 3-5 years, another 38% are active for 6-9 years. The youngest and the oldest ones are the smallest part of the pie: 10–15 years old companies cover 7% while 0-2 years old entities represent only 2% of the total.

Customers with more than 15 years behind and more than 5 (current) banking relationships were not included in the sample.

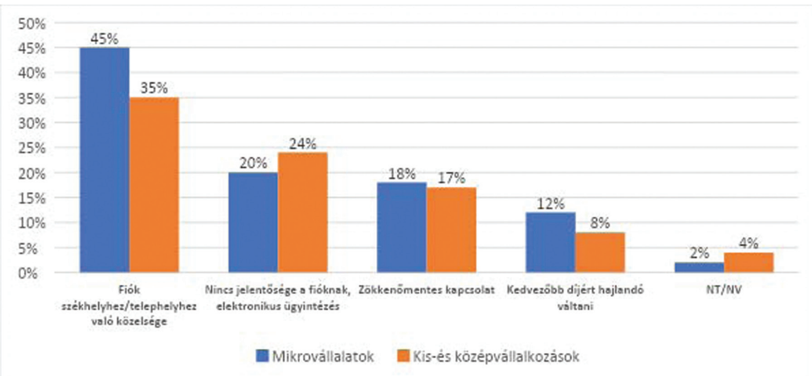
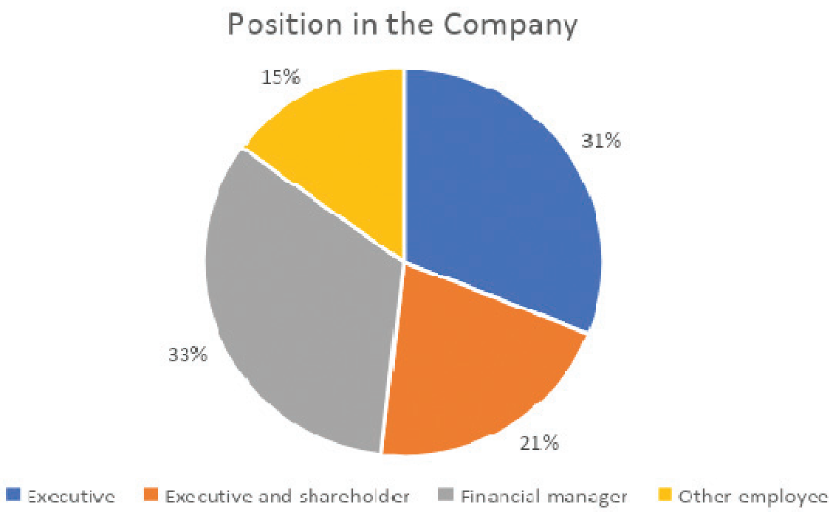


Figure 1: Main aspects of bank selection habits

Source: Self edited based on the work of Belházyné et al. (2018), 2024



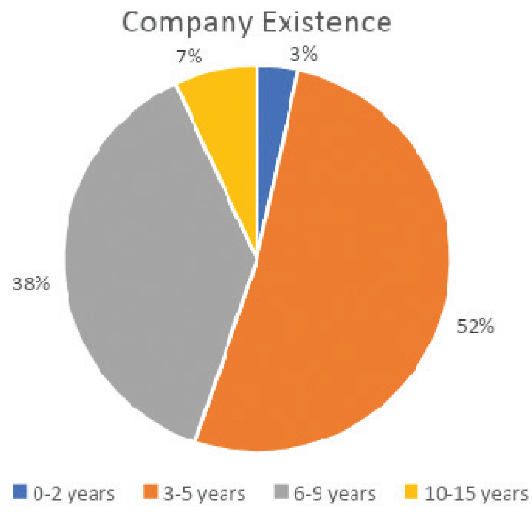


Figure 2: Respondents position in the company Figure 3: Existence of respondent companies

Source: Own editing based on questionnaire results, 2024

RESULTS

H1: Businesses that have kept accounts with the same bank for more than 5 years have higher levels of satisfaction, greater loyalty and a better reputation for their financial partner.

To support the first hypothesis, we performed a cross-table analysis to examine the relationship between the number of years of account management and the degree of bank satisfaction. Based on the Pearson Chi-square test, the relationship between the two variables is statistically demonstrated, where the Cramers Value is 0.328, indicating a weaker-than-medium relationship.

Table 3 shows that the vast majority of the respondents (85%) have maintained their accounts with their main bank for 3-9 years. Of these, 19% were satisfied or rather satisfied, 42% weremoderately satisfied, and 9% were dissatisfied or rather dissatisfied. 100% of businesses that have been banking at the same institution for 9-15 years are satisfied or rather satisfied with their financial partner.

The relationship between the number of years of account management and the bank's reputationcan also be statistically demonstrated, with the relationship between Cramers Value being weaker-than-medium.

Table 4 shows that the majority (45%) of the companies with 0-2 year banking relationships rate their financial institution's reputation as moderately good, while 40% of 3-5 year old companies and 46% of 6-9 year old companies rate their financial institution's reputation as moderately good. In the table, we can see extreme results among those with 9-15 year relationships, 50-50% answered that they do not consider their bank's reputation good or, on the contrary, good.

The Table 5 below shows that there is a connection between the years of account management and the (un)willingness of switching banks. Those SMEs that cooperate with one bank of which 13% only have 0-2 years of account keeping relationship are more likely to change part-

Table 1: Chi-Square Tests on account keeping term and satisfaction

Value		Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	28,130a	12	0,005
Likelihood Ratio	26,633	12	0,009
Linear-by-Linear Association	17,433	1	0,000
N of Valid Cases	87		

Source: SPSS analysis based on questionnaire results, 2024

Table 2: Chammer's V Test on account keeping term and satisfaction

		Value	Approximate Significance
Nominal by Nominal	Phi	0,569	0,005
	Cramer's V	0,328	0,005
N of Valid Cases		87	

Source: SPSS analysis based on questionnaire results, 2024

Table 3: Crosstab of account keeping term and satisfaction

		Dissatisfied	Rather dissatisfied	Moderately satisfied	Rather satisfied	Satisfied	Total
Account keeping (years)	0-2 years	18,2%	27,3%	27,3%	27,3%	0,0%	12,6%
	3-5 years	5,8%	7,7%	59,6%	23,1%	3,8%	59,8%
	6-9 years	0,0%	4,5%	27,3%	45,5%	22,7%	25,3%
	9-15 years	0,0%	0,0%	0,0%	50,0%	50,0%	2,3%
Total		5,7%	9,2%	46,0%	29,9%	9,2%	100,0%

Source: SPSS analysis based on questionnaire results, 2024 ners (45.5%), on the other hand only 9.1% would maintain their existing partner, however for thosecompanies that are working with one bank for 9-15 years, 0% said that they are willing to break relationship and 100% of them would not or probably not change their banking partner.

Table 4: Crosstab of account keeping term and bank reputation

Not good			Rather not good	Moderately good	Rather good	Good	Total
Account keeping (years)	0-2 years	9,1%	9,1%	9,1%	45,5%	27,3%	12,6%
	3-5 years	5,8%	17,3%	40,4%	30,8%	5,8%	59,8%
	6-9 years	22,7%	22,7%	45,5%	0,0%	9,1%	25,3%
	9-15 years	50,0%	0,0%	0,0%	0,0%	50,0%	2,3%
Total		11,5%	17,2%	36,8%	24,1%	10,3%	100,0%

Source: SPSS analysis based on questionnaire results, 2024

Table 5: Crosstab of account keeping term and bank loyalty

		Definitely	Probably	Do not know	Probably not	Definitely not	Total
Account keeping (years)	0-2 years	45,5%	27,3%	0,0%	18,2%	9,1%	12,6%
	3-5 years	5,8%	28,8%	21,2%	32,7%	11,5%	59,8%
	6-9 years	9,1%	13,6%	13,6%	50,0%	13,6%	25,3%
	9-15 years	0,0%	0,0%	0,0%	50,0%	50,0%	2,3%
Total		11,5%	24,1%	16,1%	35,6%	12,6%	100,0%

Source: SPSS analysis based on questionnaire results, 2024

Table 6: Crosstab of client loyalty and the satisfaction

Dissatisfied			Rather dissatisfied	Moderately satisfied	Rather satisfied	Satisfied	Total
Changing Bank	definitely	30,0%	20,0%	40,0%	10,0%	0,0%	11,5%
	probably	4,8%	9,5%	81,0%	4,8%	0,0%	24,1%
	do not know	7,1%	28,6%	50,0%	7,1%	7,1%	16,1%
	probably not	0,0%	0,0%	35,5%	48,4%	16,1%	35,6%
	definitely not	5,7%	9,2%	46,0%	29,9%	9,2%	12,6%
Total		5,7%	9,2%	46,0%	29,9%	9,2%	100,0%

Source: SPSS analysis based on questionnaire results, 2024

Table 6 shows that 65% of satisfied or rather satisfied customers are unlikely to change banks,while 39% would not change banks, while 50% of dissatisfied or rather dissatisfied customers would definitely change banks, while another 14% would probably change banks if they received a better offer from another financial institution.

To sum up the above, in the case of SMEs that have been keeping their main account with a given bank for more than 5 years, it can be clearly stated that they are satisfied with their financial partners, however, there were divisive responses regarding reputation, the scale has not tipped in any direction, as they consider their bank's reputation good or not good.

H2: Companies with multiple banks are more likely to switch banks than single-bank companies.

The crosstab analysis confirmed that there is a correlation between the number of bank connections and the willingness to switch banks, with the relationship weaker-than-medium.

Table 7 shows that more than 90% of survey respondents operate in a one- or two-bank model,only 8% maintain accounts with more than 3 banks. 46% of companies with the same banking relationship would definitely or rather not change banks, 36% said they would definitely or probably switch, and 18% cannot decide whether to switch if they received a better offer froman-other financial institution. A higher proportion of companies with two banking relationshipsal-so think that they would not change banks: 44% probably would not, while 12% would definitely not, while 29% would rather or definitely switch.

However, 57% of customers with 3-5 banks would definitely switch banks, and another 14% would probably switch banks if they got better terms than another bank.

Overall, it can be said that our hypothesis has not been fulfilled, since in the case of a two-bank model, fluctuations can already be observed regarding the willingness to change banks.

H3: Reputation is more important for the top executives or executive-and-shareholders of companies than for other employees responsible for banking decisions.

Based on the respondents' answers, the cross-tabulation analysis supported a correlationbe-tween bank perception and the ownership background of the financial institution, where the relationship is stronger-than-medium.

The Table 8 below shows that the importance of bank reputation is higher among executives and executive-and-shareholders as out of the executives 81,5% said that it is important or rather important to have a good reputation of a bank, and 88,3% said the same from the executive-and-shareholder group, while only 37,9% of financial managers and 38,5% of other employees

Table 7: Crosstab of number of bank and client loyalty

		Definitely	Probably	Do not know	Probably not	Definitely not	Total
Number of bank relations	1	5,1%	30,8%	17,9%	30,8%	15,4%	44,8%
	2	9,8%	19,5%	14,6%	43,9%	12,2%	47,1%
	3-5	57,1%	14,3%	14,3%	14,3%	0,0%	8,0%
Total		11,5%	24,1%	16,1%	35,6%	12,6%	100,0%

Source: SPSS analysis based on questionnaire results, 2024

Table 8: Crosstab on position in the company and importance of bank reputation

		Not important	Rather not important	Moderately important	Rather important	Important	Total
Position	Executive	3,7%	7,4%	7,4%	63,0%	18,5%	31,0%
	Executive and shareholder	0,0%	5,6%	11,1%	33,3%	50,0%	20,7%
	Financial manager	10,3%	10,3%	41,4%	31,0%	6,9%	33,3%
	Other employee	7,7%	30,8%	23,1%	30,8%	7,7%	14,9%
Total		5,7%	11,5%	21,8%	41,4%	19,5%	100,0%

Source: SPSS analysis based on questionnaire results, 2024

Table 9: Crosstab of shareholder background and bank

Not good			Rather not good	Moderately good	Rather good	Good	Total
Shareholder background	International	5,6%	11,1%	22,2%	47,2%	13,9%	41,4%
	National	15,7%	21,6%	47,1%	7,8%	7,8%	58,6%
Total		11,5%	17,2%	36,8%	24,1%	10,3%	100,0%

Source: SPSS analysis based on questionnaire results, 2024

Table 9: Summary of Results

Hypothesis ID	Hypothesis description	Result
H1	Businesses that have maintained an account with the same bank for more than 5 years have a higher level of satisfaction, greater loyalty and a better reputation for their financial partner.	Partially acknowledged
H2	Companies that have account management relationships with multiple banks are more likely to switch banks than companies operating in a single-bank model.	Partially acknowledged
H3	Reputation is more important for the number one managers or executive-owners of companies than for other employees responsible for banking decisions.	Acknowledged

Source: Own editing, 2024

think that bank reputation is important or rather important factor.

Among companies that consider their main bank to be an international bank, 61% thought theirfinancial institution's reputation was good or rather good, and only 17% said their reputation was bad or rather bad. 37% of customers of Hungarian banks consider their account manager'sreputation to be bad or rather bad, and the majority (47%) gave only a moderate rating, according to Table 9 which clearly shows that the reputation of international companies are better among the respondents.

Based on what can be read above, the 3rd hypothesis is acknowledged as it can be clearly seen that for executive and shareholder roles it is quite important to have a better reputationof a bank where their account is managed.

Conclusion

The Authors have examined the three primary defined hypothesis and summarized the above itten results in the below table:

Based on the above, one hypothesis is acknowledged, another two are partiallyacknowledged.

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