CHAPTER II

REVIEW OF LITERATURE

In this chapter, conceptual literature, empirical reviews of corporate reputation, corporate governance, trust and customer loyalty, corporate governance - Indian context, previous research studies relevant to current study and variables of the research study has been presented.

2.1. Conceptual perspectives on Corporate Reputation

The concept of corporate reputation has been studied mostly by researchers in the field of economics, organizational theory or a business strategy and marketing. In economics, reputation is related to a product’s price and quality. Researchers in organizational theory analyse reputation from the viewpoint of social identity. They describe it as an important intangible resource that has a very significant impact on performance, if not on the very survival of organizations. Authors in marketing examined reputation under the guise of brand equity and associate it with the firm’s credibility. Despite the use of a varied vocabulary and the difficulty of conceptualization, researcher observed that there is an agreement on the essence of the notion of reputation. In fact, a firm’s reputation is the direct result of its decisions and past actions. Reputation is perceived as a manifestation of the firm’s history, an asset particularly when the firm’s name is also its brand name. Reputation also informs the firm’s various target groups of the performance of its products and services compared to those offered by its competitors.
A survey conducted by PR Week Magazine reveals that almost 75% of the CEOs expressed concern about threats to their organizations' corporate reputation (Capozzi, 2005). While good corporate reputation takes a long time to build, it is easily dismantled. The rise and fall of Enron is a prominent example of the creation and destruction of a corporate reputation. In the last five years banks and financial institution reputations are damaged due to not adherence of regulation imposed by the regulators, it has shaken confident on the banks and their practices among the investors and depositors.

According to the resource-based view of the firm, corporate reputation can be considered to be a valuable strategic resource that contributes to a firm's sustainable competitive advantage (Capozzi, 2005). The formation of a good reputation is a long-term process inside an organization. The researcher has indent to find key factor impacts the corporate reputation. Mainly the corporate governance, trust and customer loyalty factor impacts the development of corporate reputation.

2.1.1. Corporate Reputation and Corporate Governance

Weigelt & Camerer, 1988; Fombrun & Shanley, 1990; Hall, 1993) stated that corporate governance mechanisms seek to enhance the confidence on capital markets and companies will have incentives to improve them voluntarily. It is expected that companies have better governance practices have a better image and are more valued in terms of reputation. Reputation builds competitive advantage, improves financial performance and attract investors.

According to Bosse et al., (2009) people behave reciprocally by rewarding others whose actions they deem fair and willingly incurring costs to punish those they deem unfair. The underlined logic here is that company whose behaving and acting is considered as fairly, can expect to be treated in the same way by its stakeholders. The idea that norm-based social control mechanisms - like reciprocity - commonly influence the behaviour of parties to an incomplete contract is well established. Therefore, the level of contribution, nonemployee stakeholders provide to the firm can also be expected to vary according to their perceptions of reciprocity. Any stakeholder that perceive a firm as fair across all three types of justice, distributional, procedural and interactional will have an incentive to contribute more positive effort to the firm than those who perceive the firm is unfair on every or one of their dimensions.

Highly engaged stakeholder behaviour, mediated by corporate reputation capability, supports company performance in terms of more valuable information, ideas and knowledge beside within considered rent creating, that otherwise would not be available to the company’s board and management. Therefore, reputation capability could be used as the integrated implicit corporate governance mechanism, eligible for auditing the quality of a firm governance system

Walker (2010) proposed a new definition for overall corporate reputation: “A relatively stable, issue specific aggregate perceptual representation of a company’s past actions and future prospects compared against some standard”. The literature on corporate reputation is extensive, but there is no unifying conceptual framework, as numerous theories have been used to examine corporate reputation. The most commonly used theories are institutional theory, signalling theory and resource-based-view.
Institutional theory has been used when research focus on building reputation, signally theory is applied to understand the process of building, maintaining and defending a reputation and finally the focus of the resource-based view is on the outcome, as it examines reputation as a rare and valuable intangible resource that leads to sustained competitive advantage.

2.1.2. Corporate reputation and trust

Trust is a key characteristic of successful social exchanges, both between persons and between organizations. Thus, companies consider building a trustworthy identity among the various stakeholders—customers, investors and other bodies—as a crucial task. To communicate their self-definition and enhance their self-esteem, customers are likely to identify with trustworthy organizations. In identifying with the trusted party characterized as being competent, benevolent and honest, customers tend to portray a similar profile to them. Thus a buyer will perceive a linkage between its self-identity and its seller, when the buyer distrusts the seller, it’s difficult to imagine.

According to Hall (1993) corporate reputation is often viewed as a “fragile resource” which requires considerable time and investment to develop but easily destroyed. Thus reputable companies are expected to behave well and are less likely to engage in negative behaviours, which strengthen customers' confidence in their integrity and reliability.

Morgan & hunt (1994) pointed out that positive corporate reputation is based on superior performance over a certain period of time. As confidence is an important factor in the creation of relational trust, high reputation can strengthen customers confidence and reduce risk perceptions when they make judgment on organizational performance and quality of products or services. Thus customers are more likely to perceive companies with highly favourable reputations as trustworthy.
According to Fombrun (1996) customers are more likely to perceive companies with good reputations by several interrelated features — (credibility, reliability, responsibility, and trustworthiness), as well as perceived quality and prominence (Rindova et al., 2005) which can enhance customers expectation of corporate capability in providing excellent products or services and integrity in fulfilling formal contracts or announced promise.

Doney and Cannon (1997) finds that confidence in the suppliers reputation is one of the important cognitive processes through which industrial buyers develop trust in a supplier firm.

In particular, during the initial stages of the relationship when there has been no previous transaction between both parties, a good reputation signals the seller's competence and or goodwill (Campbell, 1999).

Highly reputable companies are likely to gain customer trust in three ways. First, both economic and institutional perspectives of reputation recognize its valuable role in reducing the uncertainty stakeholder’s encounter when they evaluate firms (Benjamin & Podolny, 1999; Rindova et al., 2005)

Bhattacharya and Sen (2003) proposed that the extent to which consumers perceive the company identity as trustworthy will determine their response to it. Further, as a key factor in building long-term and close relationships (i.e., committed relationships), trust should also be an antecedent of identified relationships. Favourable consequences of customer identification include customers being more loyal, more likely to try new products or services, spread positive word-of-mouth about the company and being resilient to negative information associated with the organisation.
2.1.3. Corporate reputation and Customer loyalty

Spence (1973), Fombrun and Shanley (1990) stated that a firm's good reputation is also a signal of sound company behaviour towards market transactions overall, such that a better reputation engenders not only higher levels of commitment but also greater loyalty intentions. A firm’s good reputation can reduce customers’ perceived risk and motivate them to do business with the firm.

A more positive reputation tends to develop sales and market share and to establish greater customer loyalty (Andreassen and Lindestad, 1998).

Eastlick and Feinberg (1999) argued that the behavioural intentions of catalogue shopping customers (i.e., customer loyalty) as compared to “conventional” brick-and-mortar shoppers are more influenced by the reputation of the organization, since such a medium of exchange requires consumers to purchase without immediate delivery or tangible exchange.

Resnick and Zeckhauser (2002) further suggested that the best-known service companies with good reputations such as eBay and Google are the one with healthiest profits and a loyal client base.

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

According to Bernstein (1992) the image which a company creates in its environment is highly determined by the nature of its products or services, the nature of organisation by surrounding culture, members of organisation and in addition by the market segment.

The image building and managing are linked to several main areas of image usage:

- Strategic positioning
- Successful market penetration
- Availability of different resources and cost reduction
- Focus on the behaviour that increases motivation and productivity
- Easier recruitment of employees
- Attracting creative employees
- Increasing the company value
- Higher profits

Besides that, the image is very important in the process of shaping consumer’s expectations and for better perception of service quality. The image is a filter that affects the perception of company service operations. Positive image of an organisation with a perfect service that communicates clear values leads to positive attitudes of employees.

This enables a company to attract such workforce that might be in short supply on the labour market. Good and recognisable image does not happen by chance. In order to build it, the procedure requires creativity and firm determination of corporate management. Corporate image and corporate reputation management have two primary aims. First is the creation of ‘the intentional image’ in the minds of all key constituents in a company.
This means creating a widespread name recognition among target stakeholders, accompanied by spontaneous identification. The second aim in the managing process is the creation of positive reputation in the minds of key stakeholders.

A prominent corporate image may be developed through coordinate image building campaign. This includes a formal communication system - name, logo, corporate advertising and public relations. On the other side, building a good reputation requires more than effective communication efforts. It demands extraordinary identity that can be modelled only by consistent performance throughout many years. Coordinated communication programs can however, strengthen and improve company’s reputation. Company competitive advantage depends on its distinctive capabilities, strategic excellence and market structure.

According to Kay (1993) there are three sources of distinctive competitive advantages that may be depending on a market used to create and maintain competitiveness. These refer to architecture, reputation and innovativeness. Architecture is in this case, a network of contractual relations inside and outside of the organisation. Innovativeness is the capability of an organisation to create and collect new ideas successfully. Reputation is the next distinctive capability that assumes a series of company’s attributes that are expected from other actions of the company.

Corporate reputation is a public evaluation of organisation resources and company’s capability. Good and recognisable image does not happen by chance, instead it demands creativity and determination of the company management. Transition from identity to image is a result of public relations, marketing and other organizational processes that try to generate the impression which the subjects of business relations within a company.
Some requests concerning corporate reputation are to make a company and its internal relations consistent, transparent authentic and distinctive. Successful corporate reputation may attract the owners of resources. A company may build its good corporate reputation through corporate governance by revealing relevant information to certain stakeholders.

Herbig and Milewicz (1995) defined corporate reputation as “the estimation of the consistency over time of an attribute of an entity”. Consequently, a firm can have several reputations, one for each attribute according to which it devises strategies (e.g., price, product quality, innovativeness and management quality). Each firm can also have a kind of overall reputation that represents its capacity to honour the promises it makes to its customers.

Fombrun (1996), Lange, Lee, & Dai (2011) have concluded that a company in search of positive reputation depends on its consumers more than any other external factor. It is assumed that consumers should make positive influence on reputation, if internal problems of communication, transparency, values and employee treatments are also harmonised. Support and significance of employees are strongly related to reputation. In financial sector, with a great number of service encounters is highly expected. A high degree of satisfaction and employee loyalty is a good prerequisite for the satisfaction of external consumers and other stakeholders and also for good overall business success. Reputation is commonly seen as a perceptual evaluation and estimation of a person or thing. Following this general idea, scholars have most often conceptualized corporate reputation as a subjective evaluation of a firm’s overall quality or appeal in the eyes of key stakeholders.
Current research on corporate reputation is mostly focused on constructive reputation. This means a method by which reputation is being applied and consequently the effect of this reputation is vivid on customers and the organization’s success. Many marketing experts are in the opinion, that corporate reputation is something over the image and identity of a corporation. Corporation reputation is considered as the valuable strategic source.

Fombrun (1996) and Bromley (2002) defined reputation as — the total customer’s evaluation of the behaviour and previous results of the corporate’s, which describe the corporate capability to provide value and profit to its multiple beneficiaries. The reputation of a corporate’s can be determined by the customer’s perception of experience, direct and indirect information which is the upshot of the corporate’s previous activities. Some advantages of good reputation includes reduction of operational costs, high rate of customers return and accordingly sales growth, and products prices which are subjected to increase.

According Gronross (1997); O’Malley & Prothero (2004); lacey (2007) established that relationship building is tactically favourable activity in customer marketing and it results in long lasting profitability and success of an organization.

The long term relationship with the customers results in repeated purchases of goods and services. The most important term in forming the long lasting relationship with the customers is a trust. The focus of the relationship is on a long term association, in contrast to situation based short term benefits to keep the customers in a permanent relationship and appropriate degree of trust is required.
According to Jacobs (1999) “career success may depend on how much others perceive you on your abilities.” Internal factors affects a company’s reputation which includes ability to communicate, transparency, human values, treatment of employees, ability to innovate, CEO’s reputation, adaptability to change and handling of social and environmental issues.

According to Morgan and Hunt (1999) reputation defined as higher customer satisfaction, retention, growth of firm and profitability is attained by building a long term relationships with the customers. This helps them on developing the reputation.

Fombrum (2000) stated that a company achieves its competitive advantage by successfully implementing the strategy of value creation, which is not possessed by its competitors on the market or in the industry. The sustainable competitive advantage may be achieved by disposing mechanisms that protect their competitive advantage from imitation. The established sustainable competitive advantage is the basis for the realization of superior organizational performance, survival and development. The theory of strategic management suggests that positive reputation may create competitive advantage and influence corporate performance. Market efficiency determines the role of corporate reputation, and on an efficient market, the reputation plays the role of strategic property. There is a problem of identifying strategic resources in comparison to non-strategic ones, therefore it is best to say that strategies resources are the ones that significantly contribute to creating sustainable competitive advantages. Corporate reputation consists of four characteristics: credibility, reliability, responsibility and trustworthiness.
According to Bennett and Kottasz (2000) corporate reputation theory had its origins in the 1950’s when the concept of corporate image emerged. In the 1970’s and 1980’s, it evolved to focus more on corporate identity. A decade later, the theory developed into its modern form with the increased interest in brand management and corporate reputation.

Cornelissen and Harris (2001) defined “corporate identity is an apprehension of the self and very similar to apprehension of one’s personal identity”. Corporate identity is the reality and peculiarity of the organisation. Its components are presented by strategy, philosophy, culture and structure of a company organisation. Identity includes means by which a company wants to present itself on the market or to pose a product on the market.

Zyglidoupoulos (2001) defined as “the set of knowledge and emotions held by various stakeholder groups concerning aspect of a firm and its activities.” Corporate reputations has many aspects (e.g., are multidimensional) and vary with different stakeholder groups (e.g. Stakeholder specific).

According to Swift (2001) Improvements of information transparency may be a good way of raising reputation and regaining trust. New corporations try to build up their reputation with the intention to avoid being labelled as untrustworthy by shareholders and stakeholders. Reputation, dialogue and experience are the basis for trust.

Hilman and Keim (2001) have pointed out that a corporation is obliged to establish and maintain relation with primary shareholders, not only to increase its wealth, but also to make intangible and valuable ownership into a competitive advantage. A company therefore pays lot of attention to fulfil stakeholders’ needs. Corporations may actively achieve intangible valuable property by using company’s resources and by participation in social problems solutions, with the intention to preserve competitive advantage.
Social responsibility and relations with employees are the two components of reputation. The ownership structure and board of directors affect the transparency. Transparency is a necessary requirement for successful corporate governance and it leads to good reputation. Practice’s in the countries with developed model of corporate governance undoubtedly shows that smaller boards are more efficient in comparison to boards with more members. With smaller boards it is easier to reach agreements on strategic policies of a company. The structure of the board influence transparency.

Internal directors in board and family controlled companies have low level of transparency. On the contrary, external non-executive boards bring resources to a company reputation. They are responsible for reducing informational asymmetry, due to better information access, they are able to qualify information for stake member. They have intermediate role in finding significant entities for a company. External directors are more successful in following the management towards establishing good reputation for a company. Independent non-executive directors may play an active role for the stakeholders, company monitoring and fraud prevention. Dignified independent directors represent a significant factor for attracting the stakeholders, since they are the one who take decisions, and their decisions depend on the company’s reputation.

When speaking about ownership structure, we may conclude that important shareholders have positive influence on the reputation since they strive, without changing the strategy, to maximize corporate value, and they also put pressure on the management. Institutional shareholders provide credible mechanism for information on transmission in financial markets, and start initiatives to protect their investments from frauds. Financial institutional shareholders may engage experts to analyse company performance and monitor executive directors.
In situations when ownership is more concentrated with financial institutional investors, the market valuation of a company and also its reputation are greater. Having in mind the fact that leading banks have superior information in comparison to the other stakeholders

Marken.G.A (2002) defined “reputation as assets that included quality of products and services, ability to innovate, value as long-term investment, financial stability, ability to attract, develop, retain talent, use of corporate assets, and quality of management.” The major part of definition focuses on feelings and beliefs about the company that are present in the audience.

The CRW results (Corporate Reputation Watch, see Resnick and Wendler 2003) says that the most of CEO’s in leading corporations think that corporate reputation is more important today than ever before. The CRW research points out three most important business goals that may be achieved by corporate reputation.

- Recruitment and retention of employees (73%)
- Improvement of transaction and strategic partnerships (61%)
- Sales improvement (56%)

Kitchen and Laurence (2003) has proved that reputation of a ceo and reputation of a company are linked to each other. Good reputation is impossible to maintain, without internal organization support.

Bennett and Rentschler (2003) defined reputation as “a concept related to image, that refers to value judgments among the public about an organization’s qualities, formed over a long period, regarding its consistency, trustworthiness and reliability.” A company’s image can affect its credibility and effectiveness in reaching key internal and external audiences such as clients, employees, and the media.
Lines (2003) argued that external forces that impact corporate reputation are customers, prints and broadcast media, financial analysts, shareholders, industry analysts, regulators and government.

According to Dentchev and Hene (2003) the intention of reputation management strategy is to give more information consistent to corporate activities within reasonable time. Good reputation is the result of consistent informative signal within a certain period of time. Some management tasks linked to reputation are transparency, solutions for the problems of signal misperception, the emission of consistent information and prevention of moral hazards that might undermine building and maintaining good reputation. In addition, some other tasks include the solutions for wrong interpretation of the problems, stakeholder’s information detecting and minimizing uncertainty for a stakeholder by providing information.

Gillan & Starks (2003) pointed out that financial institutional investors like investment companies may play active role whereas banks and insurance companies, as traditional institutional investors may play a passive role in monitoring. State shareholders have a primary goal announced in state participation in company operations, based on strategic significance. By state participation and state ownership we get greater openness, which is positive for transparency. Since managers may also be the owners of the shares in companies in which they work as managers, greater participation of managerial ownership may lead to defeating the monitoring mechanism. There are several aspects that are linked to company reputation, and that should be managed by the management.

According to Pursey (2004) the ability to have dialogue that helps a manager to make cooperative relations with a great range of external participants which are based on trust. There is the capability of avoiding critical reputation dangers like corporate silence.
There is the capability that allows managers to influence external officials (advocacy). Last but not least let us mention the capability of crisis communication that enables managers to interact with building corporate reputation through corporate governance influential participants in an unpleasant condition a company may find itself.

Argenti and Druckenmiller (2004) defined corporate reputation as “a collective presentation of all participants image, built through the time and based on programs of company identity, its performance and perceptions of its behaviour”. The authors argued that organizations recognize the significance of corporate reputation in business goals achievements and in the function of competitive advantage maintenance.

According to Chun (2005) Reputation is usually considered as the assessment in which a thing or any person is commonly held, as a name or favourable standing or as the way in which a particular person or thing is known for. Reputation is a way to solve the problem of experience goods and services. it has been determined that the relationship between loyalty and reputation of the organization and finally concluded that reputation of firm is strongly associated with loyalty as far as public sector is concerned but this point was not further discussed. The relationship between loyalty and image of firm is drawn by the European customer satisfaction. Many accounts of reputation use the terms image and reputation interchangeably. Currently, there are many definitions of business reputation, each academic regulation offers its own point of view.

Some researchers have discovered status from a multi-stakeholder viewpoint – a corporation has more than one reputation. Corporate reputation has no single perfect definition. It is mostly described in terms of global valuation. There are a lot of ways of measuring the reputation of firm as there are many disciplines in academic study. There are various ranking scales based on measurements.
The fortune or the financial times have devised various ranking measures in order to provide the companies with various listings. They only compare which company is better but do not give the reason that how it is better.

According to Widerman and Buxel (2005) corporate reputation helps the companies to get good employees, attract consumers, and increase consumer’s loyalty, which may be implemented as a factor of competitive performance and useful in obtaining the capital. Without good reputation it is very difficult for a company to survive or to make progress. The key role of corporate governance is to protection and improvement of corporate reputation.

A Burson-Marsteller (2005) surveyed that the business leaders from around the world reported that 81 percent more threats to corporate reputation than two years ago. The top five early warning signs indicating that corporate reputation is falling were, low employee morale, internal politics were more important than doing the job well, the departure of top executives, CEO celebrity displaced CEO credibility, and employees spoke of customers and clients as nuisances.

Hill and Knowlton (2006) reported a study on the role of corporate reputation in the decisions of financial analysts when assessing a firm’s performance. Quality of management (a strong leadership team, keeping promises, and a sound corporate strategy) emerged as the most significant factor in corporate reputation, when financial performance was excluded. CEO reputation was the next most important factor in their decision to recommend a firm for investment. The analysts strongly believed that a CEO should be terminated if his/her behaviour negatively influenced the firm’s reputation. Financial analysts also saw clear firm communication with all stakeholders as an important factor in their financial assessment of a firm.
According to Barnett, Jermier, and Lafferty (2006) corporate reputation includes basic components, such as the image and quality. Identity is determined as a perception of the company’s nature by its employees and managers. The image is a perception of external parameters of the company. Reputation of corporation may be observed in the sphere of awareness (image and perceptions) and Building corporate reputation through corporate governance includes general awareness of stakeholders without judgments.

In the sphere of evaluation, there are definitions that show that stakeholders are included in the evaluation of company status (expectations and opinions). At the end, reputation is observed as a property, when definitions that consider it as something valuable and important for a company are incorporated. Company identity consists of characteristics which are by the employees considered to be of a central significance for a company because they make a company unique in comparison to other companies, and at the same different to some permanent characteristics that link the past and present to the future of a company.

Although many researches such as Inglis, R.Morley, C and Sammut P (2006) have proved a positive correlation between corporation reputation and financial performance, a few attempts have been made to analyse the effect of corporation reputation on perception value and customer’s trust, particularly in the field of services and still it has remained as one of the significant and intellectual subjects.

Mangold and Miles (2007) focused on internal corporate reputation. This reputation is the extent to which employees know and understand the organization’s mission, values and desired brand image and the degree to which their psychological contract is being fulfilled. They divide efforts to create a favourable internal reputation into external and internal and formal versus informal.
Informal efforts outside the organization involve word of mouth, formal efforts outside the organization include advertising aimed at external stakeholders and PR directed at external stakeholders. Informal efforts inside the organization include customer feedback, co-worker influences, organizational culture values, and organizational leadership actions. Formal efforts inside the organization include HR management strategies such as recruitment and staffing, training and development, compensation, performance management, PR directed to employees and advertising directed to employees.

Walsh and Betty (2007) studied customer-based corporate reputation (CBR). They defined customer-based corporate reputation as customer’s overall evaluation of a firm based on his or her reactions to the firm’s goods, services, communication activities, interactions with the firm and/or its representatives or constituencies (such as employees, management, or other customers) and/or known corporate activities. Their CBR scale captures five dimensions of reputation, as perceived by current customers of the firm, customer orientation, employer quality, financial strength, product and service quality and social responsibility.

According to Harrison (2007) “The corporate reputation is a part of company’s assets along with tangible property, in balance sheet, workforce, social property (relations with suppliers, relations with consumers, local community and regulative institutions), and environmental property (energy, material resources, clean water, air and local environment).
A good reputation is when consumers prefer the products and services of a company to available products of the competition that are similar in prices and quality. Good reputation is the key condition of stakeholders support to a company in competitive relations and it is an important factor of value of organization on the financial markets.

In spite of being intangible, the researches show that reputation provides sustainable competitive advantage. Corporate reputation may be divided in factors that dominate its content. These are the company’s ethics, employees, financial performance, leadership, management, social responsibility, and focus on consumers, quality, reliability, emotional appeal, and communication.

Lee (2005), Lacey, (2007) argued that, the respondents are asked to rate the reputation of the company on the basis of the measurements used. They do not give any idea regarding the comparison of firms within the same and different industries. But still they measure the firm specific factors based on the perceptions of the target stakeholders. Research has shown that the reputation of the firm affects the trust level of the customers, but in turn, corporate brand relationship is also strengthened by the trust.

Further Harrison (2007) pointed out corporate reputation may be strengthened by a program of relations with consumers – a research with the aim to know key stakeholders, to measure their strengths and weaknesses, and fill in the gap between internal reality and stakeholders’ perception. Furthermore, based on the research of the main factors that include reputation of a company, it is possible to change behaviour in order to reach a certain state of harmony with the policies in all functional areas. It is expediently to make plans to exceed stakeholders expectations and to include ceo as a greater protector of reputation program. Logically, the measurement of results and performance improvements shall become regular.
2.3. Empirical reviews on corporate Governance

According to Jensen and Meckling (1976), Behaviour and achievement of corporate goals, despite of agency theory’s longevity and still salient assumptions, the stakeholder’s and the stewardship theories of corporate governance offer more comprehensive approach to contemporary acceptable mode of governing the corporation. Born within strategic management field, the former has fundamentally shook up regulatory and contractual agency postulates. The later has emerged within the field of corporate governance as an alternative to agency theory. Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business, and rejects the separation thesis by R.Edward Freeman, (1984), while the fundamental postulate of stewardship theory is that managers always act in such a way to maximize the interests of a company, while the contemporary business environment is forcing management towards ethically responsible, innovative, but profitable businesses by Davis G and Miles., (1997)

Consequently, governance practices will likely be seen to reveal the manager’s personal values and attitudes and their alignment, or lack thereof, with those of shareholders. Research on trust suggests that perceptions of value misalignment evoke strong reactions of distrust (Sitkin & Roth, 1993; Mayer, Davis, & Schoorman,1995)

Harrison and St John (1997) pointed out the importance of differentiate between two main approaches to stakeholder management, the traditional approach that focuses on buffering stakeholders and the proactive approach that emphasizes the building of stakeholder relationships
Sir Adrian Cadbury has defined corporate governance as “the system by which companies are directed and controlled” more than two decades ago in their report (Cadbury report, 1992; Cadbury report, 2000).

Good corporate governance is recognised as essential for maintaining attractive investment climate that is characteristic of highly competitive companies and efficient financial markets. These countries have made a significant progress in corporate governance during the past few years. Recent and current reforms have improved legal and regulatory framework offering protection against corruption.

According to Tsui and Gul (2000) corporate governance mechanisms including accounting and auditing standards are designed to monitor managers and improve corporate transparency. A number of corporate governance mechanisms have been identified analytically and empirically in their research.

Arun and Turner (2002) corporate governance is an important issue given the essential role banks plays in the financial systems of developing economies and the widespread banking reforms that these economies have implemented.

Andriof and Waddock (2002); Wu and Eweje (2008), have stated that corporate governance increasingly underlined the proactive approach that advocated the use of the term “stakeholder engagement” instead of “stakeholder management” to highlight the importance of partnership and moreover, collaboration between the firm and its stakeholders. The essence of corporate governance lies in the crafting and continuously re-defining of codes, laws, regulations and processes that govern companies operations, ensuring that shareholder rights are safeguarded and stakeholder and manager interests are reconciled.
The control aspect of corporate governance encompasses the notions of compliance, accountability and transparency. (MacMillan K., Money, K., Downing, S. and Hillenbrand, C, 2004), and how managers exert their functions through compliance with the existing laws, regulations and codes of conduct (Cadbury, 2000).

Finally, attributions of character traits are a prominent mechanism through which reputations are judged. This kind of attribution is commonplace when individuals or managers are evaluated (Gaines- Ross, 2003), but it also enters into evaluations of firms because people tend to anthropomorphize firms and attribute human character traits to them. Researchers have thus suggested that the appearance of desirable character traits such as reliability and trustworthiness enhance corporate reputations, while attributions of undesirable ones such as opportunism effect reputational damage. The above discussion provides some guidance as to how governance arrangements enter into evaluator’s assessments of the reputation of a firm. First, reputational evaluators seem likely to account for the apparent impact of governance arrangements. In part because of this tenuous linkage, the two more symbolic criteria mentioned above and conformity to the broader cultural environment and character attributions seem likely to come into play.

The influence of the broader cultural environment is seen in research that has linked perceptions of governance practice’s appropriateness to prevailing institutional logics.

Modern conceptualizations of appropriate governance are centered on increasing shareholder value while controlling the actions of self-interested managers, or what has been termed the agency logic To the extent that governance practices align with this logic, they tend to be evaluated positively and as representing “good” governance.
For example, even though independent board structures (e.g. majority of independent directors, CEO board chair separation) have proven difficult to link directly with financial performance, they apparently inhibit CEO efforts to inappropriately control the board and thus have taken on a broader meaning as a symbol of “good” governance. Equally, CEO duality has come to symbolize “bad” governance because it conflicts with the prevailing agency logic. While the arguments above provide reason to expect that governance choices will directly influence corporate and managerial reputations, their theoretical perspective also accounts for the three features of governance arrangements and accompanying questions that are called attention to earlier. The first question asked whether governance choices are likely to particularly impact managerial reputations.

It has been suggested that this is likely, because top managers themselves play a large role in enacting governance arrangements and these arrangements typically affect outcomes such as compensation and job security that are consequential for managers.

According to OECD, corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performances are determined (OECD, 2004).

MacMillan, K., Money, K., Downing, S. and Hillenbrand, C. (2004). Argued that a narrow view of corporate governance portrays it as an enforced system of laws and financial accounting. There is however, a broader corporate governance conceptualization, emphasizing every business’ responsibilities toward the different stakeholders that provide it with the necessary resources for its survival, competitiveness and success.
Such an approach highlights the relational aspect of the field, dealing with the relations of governance structures within corporations determining the components of the governance system and the supervision of the corporation (Cadbury report, 1992). In this manner, governance could be seen as concerned with the mechanism by which business relationships are directed and controlled.

The direction aspect of corporate governance includes corporate goals and related strategic choices, i.e. leadership and strategy aspects, which implies broader, organizational frame of governance, that involves: defining of roles and responsibilities; orienting management toward a long-term vision of corporate performance; setting proper resource allocation plans, contributing know-how, expertise, and external information, performing various watchdog functions and leading the firm’s stakeholders in the desired direction. (MacMillan et al, 2004, Cadbury, 2000).

According to Jenson (2004) this idea is quite intuitive from the perspective of the governance literature, which emphasizes that decisions about governance practices are often driven by differences in the interests of managers and shareholders.

For example, reputational evaluations could diverge if managers espoused the virtues of managerial capitalism (i.e., the “corporate” logic of governance), while shareholders embraced the ideas of shareholder capitalism and the agency logic. Finally, character attributions may play a distinctive role. Assessments based on character attributions tend to be driven by relatively universal considerations (e.g., fairness, integrity) rather than those located within a particular social role. So when such attributions are salient, reputational assessments may not differ widely between social groups. Taken together, these points suggest the value of a multifaceted approach in understanding, how the reputational impact of governance practices may (or may not) differ across social groups.
Anderson and Campbell (2004) stated that corporate governance alone is not the cause of the current financial crisis. However, Corporate Governance could have prevented some of the worst aspects of the crisis had effective governance operated throughout the period of time during which the problems were developing and before they crystallized. Furthermore, effective corporate governance could have helped to reduce the catastrophic impacts that the global and national economies has faced.

MacMillan et al (2004), presented that the leadership and control aspects of corporate governance are thus not mutually exclusive rather, they go hand in hand, and they both define the extent of power accorded to various stakeholders, including executives, managers, employees, and, to a lesser extent, external constituencies and actors in proceedings of the 1st International OFEL Conference on Corporate Governance, 12th April, 2013, Dubrovnik,

Mwanakatwe (2005) stated that corporate governance is more crucial in banking industry because of its role being the custodian of public funds due to high leverage of responsibility banks are more accountable. Furthermore he mentioned that banks are organism of financial Intermediaries and have a position of trust in economic system. Because of theses intensive obligations banks are very sensitive to ineffective corporate governance. To support his arguments he presented a view that good corporate governance in banking sector can yield investor’s confidence and can attract more investments.

Musasike (2005) highlighted some key issues in banking sector regarding corporate governance like internal controlling process, risk management, auditor’s independence, material disclosures and internal audit competence. He found that the Development Bank of South Africa witnessed good business outcomes by inculcating
fairness, transparency and reduction of corruption via implementing good corporate governance. However, it is observed that there is no single corporate governance model to implement, but there is room for improvement, proper monitoring and system for early caution signs in risky projects.

Suzanne (2006) stated that corporate governance serves and guides to secure the dedication of stakeholders with objective to functionalize their skills, knowledge and experience to avail the full benefits. To avail the maximum organizational benefits corporate governance sets legal terms and condition for the allotment of property rights among stakeholders, organizing their associations and manipulating their incentives for achieving their eager to work together. Further, corporate governance is vital because of the delegation of responsibility for production, process improvement and innovation.

Tipuric D et al. (2008, 2011) defined corporate governance as “a kind of management of the management or meta-management”. The complexity of the issue has been recognized and shaped into three basic theoretic approaches agency, stakeholder and stewardship theory. All three theories ponder the proceedings of the 1st International OFEL Conference on Corporate Governance, April, 2013, Dubrovnik,

Further, negative cues about character are especially likely to have a strong reputational impact established by Mishina, Block, & Mannor, 2011). Thus, when top executives and boards make “bad” governance choices, which potentially signal that management’s values are not aligned with shareholders, it is likely that attributions of greed and opportunism directed specifically towards those managers will result and that the reputation of those managers will be particularly harmed. A contrast with more purely administrative practices (e.g., TQM, managed teams, decentralization) may be instructive.
These practices tend to be evaluated through a more narrow logic of technical rationality wherein they seem less likely to evoke strong attributions of character, suggesting a lesser impact on perceptions of managers. The second question asked whether governance arrangements have different reputational effects depending on the evaluating stakeholder group.

Neither control, nor direction part of corporate governance could be performed excluding corporate processes, defining how power is exerted, how decisions are reached, how company informs and reports and the manner it performs. The process view of corporate governance implies continuity in crafting and reconfiguring the corporate level processes in order to optimize corporate practice. Such an approach allows well governed company to possibly make advantage of its effective and efficient corporate governance system by Tipuric, et al 2008)

As per the FRC (financial reporting council) (2008) corporate governance is nowadays used as managerial tool. Good corporate governance should contribute to better company performance by helping a board discharge its duties in the best interests of shareholders. If it is ignored, the consequence may be vulnerability or poor performance.

According to Aras (2009) corporate governance usually represents strategic orientation throw set of processes, customs, polices, laws and institutions affecting the way any corporation is directed, administered and controlled. Corporate governance is reliant on external factors (law, institutions, market, global situation, etc.), but internal factors (employees, strategies, knowledge, etc.) can give opportunity to differentiate from competitor on global market. Also, corporate governance help businesses to meet global challenges while improving organizational competitiveness and safeguarding the interests of all stakeholders.
Corporate governance is very important because of its influence on reputation, rights and treatments of shareholders, relations with stakeholders, transparency and openness of company, etc.

According to Leeladhar (2009) from banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how, they (Basel Committee report on Banking Supervision, 2006):

- Set corporate objectives
- Operate the bank’s business on a day – to – day basis
- Meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders
- Align corporate activities and behaviour with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations, and
- Protect the interests of depositors.

Banking as a sector has been unique and the interests of other stakeholders appear more important to it than in the case of non-banking and non-finance organizations the involvement of government is discernibly higher in banks due to importance of stability of financial system and the larger interests of the public.

Miles (2010) indicated that Anglo American model is based on normative free market principles, relies on various pre-requisites for its successful operation, guides about corporate governance that it has focus on the association between company directors and shareholders. To alleviate corporate governance problems different system has been adopted under the Anglo American governance model to streamline the benefits of directors concerned to shareholders.
The model focuses first on director’s independency as it is integral part of corporate governance control because these are the eyes and ears of shareholders and it can invite a constituent of objectivity for internal communication of company.

Mehran et.al. (2011) identified four major dimensions of governance executive compensation, boards, risk management, and market discipline- which have significant impact in the financial crisis and corporate reputation.

According to khurana (2012) corporate governance is more crucial in financial sector because of unique nature and functioning of financial institutions. It becomes paramount significant to financial institutions to imbibe sound corporate governance policies and minimize carelessness while handling depositors funds.

2.4. Corporate Governance in Indian banks context.

Corporate Governance in general is a systemic process for enhancing wealth generating capacity, meeting stakeholders and societal expectations. In this context, governance in banks and financial institutions (FIs) has been attracting special attention in India during the past few years for a number of reasons. Firstly, with liberalization and globalization, the Indian economy, while on the one hand is getting more and more integrated with the global markets, on the other hand the developments outside the country are also affecting the domestic market. It is well understood that vulnerable, unstable and opaque banking and financial systems can severely disrupt macro-economic performance of the country. It is therefore, necessary to strengthen both supervisory and regulatory framework of the banking and financial systems.
Further, with increasing deregulation, there is need for more self-regulation, in spite of the fact that the banking and financial systems all over the globe including India, are required to meet certain international benchmarks or standards as per regulation, particularly in the areas of supervision, accounting and disclosures. However, the issues are complex and merely meeting these standards would not be sufficient by themselves for stability in the long run unless there are well established governance processes permeating throughout an organization through a system of proper conduct and professional management.

In the context of governance, the Indian banking sector has a special role to play, not only because of the critical nature of the business, but because it is a sector that had large public ownership which is now in the process of being divested. Banks will also have to deal with issues relating to corporate reputation, as they will need to maintain a high degree of public confidence for raising capital and other resources. Corporate reputation could arise on account of operational lapses, opaqueness in operations and shortcomings in services. Systems and internal controls, effective implementation of corporate governance practice would be crucial to ensure that corporate reputation is managed well.

Bipinchandra T. vadhar (2011) suggested that corporate governance procedures applied in the banking sector in India have been effective to some extent in achieving the goals and objectives upon which they were set, but it is still in its infancy. On a scale of 1 to 5, this study has graded the general corporate governance of banks in India at 3 and that of non-listed together with state owned banks. Therefore recommended that strategic training for board members and senior bank managers be intensified by stakeholders in corporate governance to promote good corporate governance in these institutions.
They should be guided to understand that “to remain competitive in a changing world, banks must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities and the government has an important responsibility for shaping an effective regulatory framework that provides for sufficient flexibility to allow markets to function effectively and to respond to expectations of shareholders and other stakeholders – OECD.

The existing corporate governance procedures within the banks as established by this are still not effectively implemented. There is need for stakeholders to play an effective role in assisting the banks with necessary professional and technical assistance towards the Implementation of these.

The regulatory and supervision systems have been issued by the Reserve Bank of India. Some banks have also developed own in-house systems to ensure this. More in-house systems are further recommended so that those systems that have been introduced through statutes can be supplemented by the in-house systems and enforcement.

It is further suggested that “there is no other way of conducting banking than the way it ought to be conducted professionally”. There is a need of more private oversight than government. The Board for financial supervision of RBI should get a complete autonomous status with the representations from whole industry to ensure effective governance. Banks should be subject to normal market discipline and market should decide their fate.

Sector specific policy reform will only be more effective when the entire system is well functional and efficient. Introducing new laws and institutions alone is not enough. Reform can succeed only when institutional changes are accompanied by changes in people’s attitude. Corporate governance policy implementation in right spirit is very crucial for banks.
RBI should speed up the implementation of various committee’s recommendations with a post implementation scrutiny of governance scenario. Once freed from the State’s protection, banks will definitely face the real challenge. The findings indicate a difficult road ahead. The growth of other channels of savings, possible growth of capital market and capital account convertibility will put banks in a different platform by affecting their deposits and loans. Corporate governance in banks will need a different orientation in coming years. Since this work establishes a relationship between governance and reputation, the strength of the former can ensure a better future for banks.

2.5. Corporate governance policy implementation in India

Corporate governance practices and its policy implementations in India, it is found that till the year 2002 most of them were at recommendatory stage. Most of the suggestions given by the Advisory Group (2001) and Gangly Committee (2002) were implemented during and after the year 2002. The following paragraphs highlight the status of bank governance as envisaged by the Advisory Group (2001), their recommendations, and the action taken by RBI for their implementation with relevant to variables of the research study.
## Governance status in Indian Banking system

### Table -2.1

<table>
<thead>
<tr>
<th>Corporate Governance variables</th>
<th>Governance status before recommendation</th>
<th>Committee recommendation</th>
<th>Action Taken by RBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Responsibility</td>
<td>Board members are not effective as ideally envisaged. This is more visible in PSU banks.</td>
<td>Boards to align their responsibilities in line with international best practices. Boards are to play very active role in providing oversight to senior level management for managing different risks. Limits for individual voting rights are 1 per cent in PSBs, but 10 per cent for private sector banks.</td>
<td>Recommendations of the Gangly Group have been forwarded for implementation. Directors to execute the deed of covenants to discharge their responsibilities to the best of their abilities, individually and collectively.</td>
</tr>
<tr>
<td>2. Accountability</td>
<td>Boards of majority of the banks do not full-fill clear lines of responsibility and accountability for themselves.</td>
<td>The board should be accountable to the owners of the bank. The bank should also keep in view the interests of main stakeholders, such as, depositors, employees, creditors, customers, etc</td>
<td>The Chairman of the Audit Committee should be present at AGMs to answer shareholder queries. Banks have also been advised to form committees under the chairmanship of a nonexecutive director to look into the redressal of complaints.</td>
</tr>
<tr>
<td>3. Independence</td>
<td>Disclosure of The director's interest is mandatory, in case of conflict of interest rising, the director has to abstain from the decision making process relating to that case.</td>
<td>The recommendation of Blue ribbon commission shall be applicable. The directors nominated by the government on the boards of PSBs and all nominees of the regulators should not be considered as independent. A majority of non-executive directors should be identified in the Annual Report.</td>
<td>Issued circular annexing the mandatory recommendations of the SEBI Committee on Corporate Governance. It implies that in case a company has a nonexecutive Chairman, at least half of the Board should be independent.</td>
</tr>
</tbody>
</table>
4. Fairness and Transparency

Standard of bank’s disclosure fall short of international standard. Some disclosures are made mandatory by RBI.

Financial reporting, disclosure and transparency of banks need further improvement. Disclosures as per accounting standards should cover subsidiaries, especially where 26 per cent or more shareholding exists. Disaggregated segmental information should also be provided.

Asked banks to include separate section on corporate governance in their Annual Reports. Made mandatory for banks to adopt all accounting standards that are required to be followed, though certain flexibility required by banks has been provided.

5. Discipline

Nationalised banks to have to hold at least six meetings in a year and at least once in a quarter.

At least six meetings in a year keeping aside the quarterly restrictions.

Made mandatory that Board meetings be held at least 4 times a year with a maximum gap of 4 months.

2.6. Empirical reviews on Trust

In literature, trust has been studied extensively. Trust is defined as a belief of one party that other party will be fulfilling their needs and wants. As far as services are concerned, trust is the confidence that customers have on the provider of services to fulfil their needs. Generally trust can be defined as confidence that one party has on another because of honesty and reliability of the other partner defined by Morgan & Hunt, 1994). This description can be theoretically applied in diverse situations, including exchanges of goods and services.

Doney and Cannon (1997) studied that trust is formed of two aspects perceived credibility and benevolence. Some also suggest two levels of trust. The first level is trust of customer on an individual and the second level represents the trust of customer on an institution.
Trust is a significant intervening factor between behaviour of customers before and after the purchase of particular product. It results in the long-term loyalty and makes stronger the association between the two parties. Trust is considered as a special psychological state as it is in the case of loyalty and it can only occur in certain affairs. When a customer trusts a firm, he or she has the strong confidence in quality of product and services of the organization. Trusting an organization is considered as far beyond the loyalty with an organization.

In Doney & Cannon research, it was concerned with the direct effects of trust and satisfaction, as a part of reputation and customer loyalty. The most commonly found idea of trust is two dimensional. The first dimension is related to creditability of other partner in objective terms which includes the attributions of honesty, reliability, and keeping the promises. The other dimension consists of benevolence that is the fair intentions of the partner to fulfil the needs of the other partner.

During the past decade, the concept of trust has attracted much attention among researchers, particularly in organizational theory and marketing. This concept can be analysed at different levels of social interaction interpersonal, intergroup, and inter-organizational. In marketing, the central role of trust is recognized in developing and maintaining relationships between those who take part in an exchange process, especially within a buyer-seller relationship with a view to acquiring goods or services.

Trust is defined as the level of reliability ensured by one party to another within a given exchange relationship. In a marketing context, trust is usually linked to consumer expectations concerning the firm’s capacity to assume its obligations and keep its promises.
These expectations are based on the firm’s competence, honesty, and compassion. Competence is expertise and for customers, it reflects the firm’s capacity to carry out transactions and to live up to their expectations. Honesty is associated with fulfilling promises made by the firm, and compassion represents the firm’s willingness to take into consideration consumer interests when making decisions and when planning for engagement in customer relationship activities. The role of trust in forming behavioural intentions is well defined in the literature. For example, trust enables a firm to develop and to maintain customer loyalty. Consumers who trust a firm expect promises to be respected as advertised. They also expect the firm to act based upon their interests.

Certain studies suggest that trust is a mediating variable within a model that encompasses various components of the consumer - brand relationship or it is the result of a chain of effects that includes the different forms of assessment carried out by consumers and their commitment, or even their loyalty.

Arjun& Morris (2001) stated that the brand trust is a consumer would like to trust on his/her own initiative, and trust the product that brand provides. Trust can reduce the consumer's uncertainty, because the consumer not only knows that brand can be worth trusting, but also thinks that dependable, safe and honest consumption scenario is the important link of the brand trusts.

Boshoff and du Plessis (2009) asserted that customer trust is a key component of relationship building. Customer trust involves taking a certain degree of risk as customers are vulnerable to the service providers. Customer trust is confidence that customers have in the reliability and competence of service providers.
According to Chang (2012) customer trust consists of affective and cognitive trust. In cognitive trust consumers are confident that the service provider is competent and reliable in keeping promises, whereas in affective trust consumers believe that while the service providers seek to maximise profits they also have genuine concern for customer needs.

Dabholkar and Sheng (2012) believed that customers trust service providers if they believe that the product or service provides benefits to them. Customer trust influences the development of consumer commitment to the service provider because of the positive experiences they had with the product or service. This indicates that retailers need to make sure that the service encounters satisfy customers in order to ensure commitment by consumers. echoing the same sentiments,

2.7. Empirical reviews on Customer loyalty.

Aaker (1991) defined brand loyalty as consumer’s interest in a brand. Further defined brand equity as the set of brand assets and liabilities linked to the brand – Its Name and symbols –That add value to or subtract value from a product or service, these assets include brand loyalty, name awareness, perceived quality and association. The definition stresses brand added value however, his model doesn’t make a strict distinction between added value for the customer or consumer and added value for the brand owner or company.

Customer loyalty is defined as promise of buyers to purchase particular products, services and brands of an organization over a consistent period of time, irrespective of competitor’s new products and innovations and these customers are not compelled to switching behaviour by (Oliver, 1999).
It is similar as the maintenance of long term relationship between customer and the organization by Gundlach, Achrol & Mentzer (1995), Anderson and Weitz (1992). The term loyalty behaviour can be used in several different terms but basically it is considered as the intention of the buyers to make the purchases again and again to build a continuous relationship with the organization by Dick and Basu (1994), Fornell (1992). Most frequently loyalty is calculated as a straight outcome to customer satisfaction by Heskett, Sasser, & Schlesinger, (1997). Fornell (1992), Recommended that gratifying customers may not be enough to make loyal customers.

According to De Chernatony and McDonald (1994) the aim of branding is to facilitate companies’ effort to obtain and maintain loyal customers, based on cost effectiveness, in order to achieve a high rate of return on investment.

According to Morgan and Hunt (1994) “Trust is a central factor that contributes to a successful marketing relationship and it can lead to increase efficiency, productivity and effectiveness”.

Further stated that trust will occur when one party has confidence in an exchange partner's reliability and integrity. Because of its salience in the context of uncertainty, trust plays a critical role for service providers and B2B marketers. According to various researches trust can be categorized into four groups:

I. Clear intention of the parties in each interaction

ii. The necessity of this point that each party believes the occurrence of an event may be effect their future relations

iii. Relationships that could create desirable conditions

iv. Belief in each other's words, promises and activities on the routine business.
Bloemer and Kesper (1995) argued the reason for buying the same brand again might be the comfort of not being forced to make a new choice. The other reasons include the time saved when buying the same brand again, the feeling of indifference with the choice, the familiarity with the brand or the reduction of perceived risk.

Authors such as Macintosh, Lockshin (1997) and Sirdeshmukh (2002) have also mentioned the role of trust in creating loyalty.

Oliver (1999) pointed out that the customer loyalty mainly contains an idea to lie in whether consumer wills keep on purchasing the product of the same shop for a long time or not, that meaning can extend for the shop the competition ability in the market. High loyalty customer has the possibility of attracting more latent customers, therefore most operators usually will promote a brand loyalty to list as a main operation target.

Although the typically loyal customer can be described as the one who purchases repeatedly the same brand, brand loyalty cannot be measured solely by this buying behaviour since the decision to buy a brand may be influenced by other variables such as social norms and situational factors.

Similarly, a psychological dimension expressed in the form of an attitude or preference must also be included within the notion of loyalty. In fact, this “composite” approach to understanding loyalty is based on the hypothesis that consumers’ decisions to buy are guided by a conscientious assessment of available brands. However, the literature acknowledges that in many circumstances the consumer does not always go through an assessment process before buying a product. The risk exists, therefore, that genuine loyalty will not be recognized by the “composite” approach, even if the outcome bypasses a consumer’s psychological commitment to the brand.
To complete the “composite” approach, which remains the most widely accepted approach in the literature, one must analyse the buying behaviour in contexts in which consumers are exposed to pressure aimed at modifying their behaviour. Thus, brand loyalty is genuinely present when consumers resist the temptation to change brands. For other authors, loyalty can be defined in two ways, as an attitude and as a behaviour.

As an attitude, loyalty expresses a customer’s desire to establish a relationship with a firm. The problem, then, is to verify if this intention will translate into actions. From a behavioural standpoint, loyalty is defined as repeated support given to a single firm.

This behaviour can be influenced by habits, by other people or by a random choice. In this way, four stages are necessary in order to develop customer loyalty cognitive, affective, intentional, and behavioural. Whether it is perceived as an attitude or type of behaviour, loyalty is one of many elements that determine customer’s decisions to buy. Identifying the elements that influence customer loyalty represents, therefore, a major research theme for those who wish to understand the performance and sustainability of firms.

Several hypotheses have been tested, notably the links between consumer trust, perceived value, and customer loyalty, the relationships between perceived quality, satisfaction, and image, and buying intentions, as surrogate indicators of loyalty and even the relationships between reputation, quality, value, and loyalty with respect to online services. Other studies conducted in the B2B context show that loyalty depends in particular on firms’ trust in their suppliers, on the relational culture established by the latter, on the absence of conflict between two parties, and on a competitive level.
In most of the studies perused, the direct relationship between customer trust and customer loyalty is, of course, a major point of interest, but it is often part of a causal structure in the presence of other constructs, such as image, reputation, quality, value, satisfaction, and even commitment.

According to De Chernatony and McDonald (1999) the aim of branding is to facilitate company’s effort to obtain and maintain loyal customers, based on cost effectiveness, in order to achieve a high rate of return on investment.

According Kim CK, Han D, Park SB (2001), Brand loyalty is a reflection of the functional utility of products and services. The main challenge in brand loyalty lies with the management and their definition about the concept of brand loyalty.

Yoo and Donthum (2001) asserted that brand loyalty is a tendency to be loyal to a brand and it can be shown as a first choice. A brand-loyal customer is committed to a particular brand and this commitment leads the customer to purchase the same brand each time the same product is used.

According to Keller (2003) Loyalty is a core dimension of brand equity, and it usually refers to user experience result and can improve perception of product performance. Aaker also said that a basic indicator of loyalty is the amount a customer will pay for the brand in comparison with another brand. It is important to emphasize that the frequency of buying one brand is not a sufficient reason for brand loyalty. Brand loyalty is one of the most important benefits of creating a positive brand image and that acts as a representative of brand special value existence.
Ranaweera et al. (2003) stated that loyalty consists of both behavioural and attitudinal dimensions; purchase intentions were defined as the propensity to purchase a product or service at some point in the future.

Hong and Goo (2004) examined a proposed causal model of customer loyalty in professional service firms and found that five quality dimension provides good measurement of service quality for professional accounting business. To create behaviourally loyal customers, movement along service quality to customer satisfaction to customer loyalty is necessary.

Guenzi and Pelloni (2004) explored the impact of interpersonal relationships (both with a firm's employees and customers) on customer satisfaction and loyalty toward the firm. Further stated that customer-to-employee and customer-to-customer relationships contribute differently to the development of customer loyalty.

Jian (2004) argued that brand trust and brand emotion influenced a customer's attitude for brand after studying, its research proof brand trust will have positive influence to the customer loyalty.

(Lam, S. Y., Shankar, V., Erramilli, M. K., & Murthy, B. (2004) ), argued that consumers time constraints, monetary condition, effort perceptions, risk perceptions, or private distinctiveness may donate openly to loyalty performance or form the authority of satisfaction.

Aydin et al. (2005), conducted a study on service sector to measure the effects of customer satisfaction and trust on customer loyalty and the direct and indirect effect of switching cost on customer loyalty and found that the switching cost factor directly affects loyalty, and has a moderator effect on customer satisfaction and trust. Therefore, it plays a crucial role in winning customer loyalty.
Further, trust has more importance than customer satisfaction in engendering loyalty, since trust contains belief in the product and service, which provides positive outcomes not only in the present but also in the future, however customer satisfaction does not contain this dimension.

Pont and McQuilken (2005), stated that customer satisfaction is an important indicator for customer loyalty and accordingly they investigated the relationship between customer satisfaction and customer loyalty intentions within the Australian banking industry. Satisfaction was found to have a significant impact on customer loyalty, pay and external resources.

Yu et al. (2006), explored the relationship among service quality, customer satisfaction and customer loyalty of the leisure industry to provide operators with a reference as to how to improve their quality. According to their results, the partial demographic statistics variable has a significant relationship with service quality, customer satisfaction and customer loyalty of the leisure industry while significant differences show between importance and satisfaction of service quality of the leisure industry. In addition, both satisfaction of leisure industry service quality and overall customer satisfaction have significant relationship with customer loyalty.

Ismail et al. (2006) examined the relationship between audit service quality, client satisfaction and loyalty to the audit firms. It was concluded that companies were satisfied with the tangible dimension but were dissatisfied with the other four dimensions. The most commonly expressed dissatisfaction was empathy. Customer satisfaction was found to be partially mediate the relationship of reliability and customer loyalty.
According to Kim WG, Jin-Sun B, Kim HJ. (2008) Understanding in the partner’s interaction may lead to the formation of a trusting business relationship. Creating trust between the organization and its customers makes more probable mutual benefits.

Keh and Xie (2009) described that “Customers who have deep trust in their providers tend to continue their relationship, and only customers who are strongly committed towards their suppliers are willing to pay higher prices”.

Akbar and Prevaez (2009) investigated the effects of service quality, trust, and customer satisfaction on customer loyalty. They found a significant positive relationship between them. Their findings also supported the path arguments that customer satisfaction mediates perceived service quality dimensions and customer loyalty. Furthermore, they examined the relationship between trust and customer loyalty.


Khokhar et al., (2011) defined as “To generate and preserve customer loyalty is fetching an essential role in service industry” Further in his study he stated that “In case of service industry in order to make dedicated clients, consistency factor is very significant and have a strong role and pressure on minds of consumers. Loyalty of client is accountable for productivity and expansion of a business, is optimistic for corporation because it engages nonstop purchase of a products and services for a longer duration of time.
According to John (2011) “Customer loyalty is interconnected to the constant subsistence of firm. It is the significant measure that corporations need to adopt if they desire to be mature.

2.8. Previous studies of corporate governance on corporate reputation.

Carole Hillenbrand & Kevin Money (2007) suggested that stakeholder understanding of corporate responsibility is important aspects, similar to stakeholder understanding of corporate reputation, as expressed by the two reputation models analysed and suggested that corporate responsibility is a key antecedent of corporate reputation or even suggest that corporate responsibility and corporate reputation are distinct concepts. Rather, the results suggest that far from being distinct the two Concepts are largely overlapping. In other words, when taking a stakeholder perspective, corporate reputation and corporate responsibility are both expressed through similar and overlapping corporate behaviours and understood in terms of similar and overlapping stakeholder perceptions. In this way rather than viewing reputation and responsibility as two separate concepts, they may more usefully be thought of as two sides of the same coin.

This has a number of implications, but critically it may mean that reputation models could be used to provide a starting point for the provision of proxy-measures of responsibility. Further suggested that organizations can use measures provided by reputation models to communicate and report on the responsibility of their businesses in terms of issues that are relevant to stakeholders. Another finding is that despite differences in the interpretation of aspects of the clusters, on a conceptual level, employees and customers construct corporate responsibility in a very similar way. From a theoretical point it suggests that a generic conceptualization of corporate responsibility and corporate reputation could be developed that is applicable to different stakeholder groups.
Cedomir ljubojevi & Gordana ljubojevi (2008) investigated the relationship of corporate reputation and corporate governance in their study in “Building Corporate Reputation through Corporate Governance”. Sample size for the research study consisted of 100 managers of five financial sector companies in three former Yugoslavian Countries. The result of research study revealed out that 86 % are responded to questionnaire. In the survey 71, 40% men and 28, 60% women participated and the majority of consumers (85.7%) agree that good corporate governance is a necessary condition for achieving sustainable competitive advantage. The researcher concluded their study as “The companies and consumers included in the research show high level of awareness and responsibility in recognising the role of corporate governance and the significance of integration of corporate governance into corporate strategy. Companies do not fully understand that better corporate governance is a condition for corporate reputation development (poor understanding of management board role, and strong leadership of the ceo and his team). What is more, companies do not completely understand the nature and significance of corporate reputation and its key role in the achieving sustainable competitive advantage. When speaking about former Yugoslav countries, the role of corporate reputation should be of the utmost importance in increasing the numbers of foreign investors. Though the majority of companies and consumers share the opinion that companies are liable to disclose their internal corporate information to public, the transparency and strong governance control are not recognised as significant factors in corporate reputation building.

Considering the openness and transparency of the company – its obligation and liability to publicly disclose information, 57.14% of consumers think that companies are liable to publicly disclose their internal corporate information, whereas 42.86% participants are of the opposite opinion.
The majority of participants (85.70%) agree that companies should participate in activities that are useful for community benefits. On the other hand 14.30% of consumers does not think that companies are liable for the development of a community and its well-being. When speaking about the request that consumers show their knowledge and understanding of corporate governance, consumers have unfortunately not achieved the satisfying level. 42.90% of consumers has not even tried to answer the question what a corporate governance and 57.10% participants offered the answers containing detached elements and showed only vague knowledge of this complex notion. The greatest stress put on the board of directors’ policies that contribute to better position of a company on the market.

Cristina Abad Navarro, Francisco Bravo Urquiza & Joaquina Laffarga Briones (2011) investigated in their study corporate governance and corporate reputation: An empirical analysis. Samples for the research study were made up of 388 firm-year observations (including 69 companies) of Spanish companies from MERCO Index. The results of the multivariate regression analysis concluded that, where reputation was the dependent variable, and several corporate governance characteristics were considered as independent variables, including board and CEO independence, the presence of female directors on the board and board activity. Results from the empirical analysis show that, companies that are appear on top of the ranking of the reputation index MERCO tend to have more independent directors and more women on their board. It seem that the compliance of recommendations in the good governance codes contributes to enhancing the perceptions that stakeholders have about the companies. Further the results have direct implications on the management of corporate governance mechanisms by shareholders which should take into account its role in the creation and maintenance of corporate reputation and therefore in the value of their investments.
Wajdi Ben Rejeb & Mohamed Frioui (2012) concluded in their results that indicate a positive and significant association between the implementation of the three principles of governance (responsibility, Transparency and accountability) the existence of the prerequisites, and the stakeholder’s satisfaction in the Tunisian listed companies. Further to prediction, they found a statistically significant relationship between the fairness, the board monitoring role, the board strategist role and the stakeholder’s satisfaction. Study further concluded that a positive link between corporate governance and stakeholder’s satisfaction can help these companies to voluntarily improve their corporate governance practices to develop a sustainable corporate reputation.

Ronald W. Masulis & Shawn Mobbs (2014) study revealed that reputation concerns create strong incentives for independent directors to endeavour to be viewed externally as capable monitors as well as to retain their most valuable directorships. We examine directors holding multiple directorships and the effects of having differential reputation incentives across firms. Our results are consistent with directors being more concerned with their reputation at their most prestigious and visible directorships. In the findings of the study highlight the importance of understanding the effects of independent director reputation incentives for researchers, boards of directors and policy makers, because they can significantly affect the supply of time and effort that busy directors are willing to allocate to their board duties, consistent with the evidence and they highlight the key board decisions and firm actions through which reputation incentives manifest themselves.
2.9. Previous studies of Trust and loyalty on corporate reputation.

Nha Nguyen, André Leclerc, Gaston LeBlanc (2013) study demonstrated the mediating role of customer trust between social identity (in its three forms: corporate identity, corporate image, and corporate reputation) and customer loyalty. These results suggested that the managers of financial institutions two avenues worth exploring to develop and reinforce customer loyalty. A financial institution must be able to adequately manage all three forms of social identity in order to build or reinforce customer trust. For example, corporate identity must rely on physical elements likely to create favourable and lasting impressions in customer’s minds.

Corporate identity plays a precursor role in the positioning of the organization and exerts a positive influence on customer’s perceptions of the firm’s image in a competitive setting. The purpose of this study was to verify empirically a causal model in a financial service setting that links the three forms of a firm’s social identity, namely corporate identity, corporate image, and corporate reputation, to customer trust as factors leading to customer loyalty reinforcement. The results obtained have enabled us to confirm the significant impact of the chain of effect identity-image-reputation on customer trust, which in turn affects customer loyalty.

Azam Shahsavari and Mohammad Faryabi (2013) has investigated the impact of corporate reputation on three dimensions of customer citizenship behaviours including helping other customers, helping the company and positive word-of-mouth. The sample (n = 420) was bank customers in Iran. Concluded their research that bank reputation by increasing commitment and loyalty have positive influence on customer citizenship behaviors, hence promotion and improvement of the bank reputation through its dimensions as has been mentioned continuance can be very effective in promoting customer citizenship behaviors.
Improving the quality of bank services, promoting employee’s skills and proficiency, creating more facilities for employees, encouraging bank staff to speak about positive aspects of bank when communicating with others, empowering employees for effective and useful communications with customers. Focusing more on social environment and investing more on society welfare. Providing good facilities for customers and facilitating of their supplying conditions. Prioritizing customer’s needs and wants, providing their proper services.

Corporate reputation is customers evaluating of corporate according to their direct experience and indirect experience through communication activities, hence along with reinforcing corporate reputation, focusing on advertising mix and providing operational information can be very effective. Customer commitment and loyalty impacts on customer citizenship behaviors, therefore to invest commitment and loyalty building programs can be effective on customer’s citizenship behaviours.

Roshana Gul (2014) has examined the relationship between reputation, customer satisfaction, trust, and loyalty. The sample size of research study consists of 150 respondents from Bahawalpur City of Pakistan. The findings of the research study indicated that regression results have proved that reputation has positive and significant influence on customer loyalty, customer satisfaction and trust. The values of reputation and customer loyalty are ($\beta=0.377$) and ($p<0.01$) that showed a positive relationship on reputation. There is only 37% contribution of reputation in retention of existing customers. Most influential relationship of reputation is with trust. The analysis provides the values ($\beta=0.708$) and ($p<0.01$) that supports the fact that trust adds 70% in reputation. Research Concluded that the impact of reputation on trust is giving the strongest results and the impact of reputation on customer satisfaction is on second number.
In short reputation overall is a strong construct. Brand reputation is playing a significant role on customer loyalty and customer satisfaction as well. The literature concluded fairly that there is a strong connection between brand trust and corporate reputation, where reputation plays a key role to create trust in an organization.

Hence the researcher would like to study and establish the relationship between the corporate governance its dimension, trust and customer Loyalty on corporate reputation with respect to banks and NBFC’s in Chennai, Tamilnadu, India.

2.10. Research Gap

There are less research studies on the influence of corporate governance, trust, and customer loyalty on corporate reputation in foreign countries and especially in India. Hence, this may be taken as research gap and this research study would bring out the influence of corporate governance, trust and customer loyalty on corporate reputation among banking customers and investors in Chennai, Tamil Nadu state, India.

Review of literature on variables of the research study reveals that there are less research studies that have considered various organizations like banks, finance companies from different places for collecting data from the respondents. Hence, this may be taken as the research gap and data was collected from banking investors and finance professionals employed in banks, and non-banking finance companies from Chennai, Tamilnadu state, in this research study.
The researcher based on his exhaustive search of research databases (Directory of open access journals, Emerald, etc.) for reviewing literature pertaining to corporate governance and its dimension, could not find at least one research paper for testing the impact effect on corporate reputation and the relationship between trust and customer loyalty.

Hence, this may be taken as research gap and this research would bring out the impact of corporate governance and its dimension, trust and customer loyalty on corporate reputation.

The next chapter “Research Methodology” would present the methodology adopted in the research study.