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DOCTORAL THESIS ABSTRACT

Reputational risk management in banking sector

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INTRODUCTION

« It takes 20 years to build a reputation and 5 minutes to ruin it. »
Waren Buffett

What can be done in 5 minutes so as not to destroy everything you have built in 20 years? Is there a universally applicable recipe? What are the risks and mitigating factors? Can you prepare to face the negative effects? Is there a reputational risk management? If you have enough financial reserves, can you counteract the effects? Who are the key players in this process? Can the direct impact of a reputational risk event be quantified?

These are the questions I will try to answer during my doctoral thesis. I will study in a beginning stage the specialized literature in order to make an analysis of the state of research in the field and what conclusions have been reached so far. I will later try to understand whether empirical analyzes by other researchers are useful and whether the conclusions may have effects to be applicable today, or the current reality is different, unpredictable, and past recipes may not have positive effects because the environment of events is different.

I will then present my own research studies to identify through concrete cases, what are the causes of reputational risks, what are the direct and indirect effects and especially what are the measures that can be taken to limit losses and to understand if there are solutions to turn risks into opportunities. For these studies, the starting point is on the one hand models applied in the past, but adapted to the current situation and filtered by the experience and perception of specialists in the field. The analysis of the results was performed by established scientific methods (quantitative, qualitative and qualitative-comparative), in order for the results to be scientifically validated and to be useful to the academic environment, but also to the business environment. The studies were also carried out by categories of respondents, in particular at the level of Compliance specialists who formally manage the reputational risk in banks, at the top level Management who has the competence to implement strategy measures, but also at the level of clients, through a quantitative study, to observe the point of view of consumers, which in fact validates by purchasing banking products all the activities of decision makers in banks.

The final goal of this doctoral thesis is to identify a conceptual model for anticipating and identifying the occurrence of reputational risks.

Chapter 1

Theoretical considerations regarding the reputation in the banking field

Reputation is a competitive advantage for any company whose business model is based on trust. Banks play an active role in the economic and social development of countries. This is due to the fact that they have the ability to select investment and consumption projects, to manage risks, to decide who has access to capital and what types of activities need to be financed.

Reputation risk has been the subject of special attention in both the academic literature and the financial press, but there are still many aspects to be researched in this field. It is essential to identify scientific methods to prevent the occurrence of reputational risks, strategies to be applied in case of their identification and the role of management in this process. Of all the literature reviewed, the least developed segment refers to the clear quantification of losses generated by reputation risk (Honey, 2017).

Reputation can be defined as the opinion of the public towards a person, a group of people or an organization. It is more of a social assessment than a technical assessment. This is an important factor in many areas, such as education, business, online communities and social status. In a business context, reputation helps determine the company's surplus value (Walter, 2013).

We have not identified a uniform approach to "reputation" in the literature we have studied so far. The approach of specialists starts from a macro level, which considers reputation as a resource, to a micro level, which considers reputation as a social vision of the company (Fombrun et al., 2014).

In the banking sector, reputation is often treated in the same way as a 'brand', ie an intangible asset that may be affected by operational errors or inappropriate strategic behavior.

Based on the results of research that has studied the field of reputational risk, as well as from one's own practical observations, the definition of the term "reputation", which focuses on creating a potential for success and preventing failure, can be summarized as follows: a bank's reputation , its integrity and trust, resulting from the perception of the stakeholder group: customers, shareholders, external creditors, employees, business partners, financial communities, competitors, rating agencies, analysts and fund managers, government and regulatory authorities, groups of interest, social environment etc.

In this context, active reputation management can make a significant contribution to protecting and enhancing a bank's market value by identifying reputational risks, preventing and limiting reputational losses and preparing measures to generate reputational gains at the same time. Reputation management can be defined as a process of defining, identifying, assessing and controlling reputational risks (Schaarschmidt, 2016).

There is a close correlation between a bank's reputation and its credibility. Credibility is directly linked to performance - which is perceived as the belief that the bank will achieve its strategic and / or operational objectives. In general, it seems that reputation derives from the credibility that stakeholders show towards a banking institution. A bank with a favorable reputation is therefore a credible bank (Eskenazi, 2015).

Reputation is a decisive factor in making a profit for a bank, and reputation risk is a negative or positive deviation from the expected reputation. This concept of expected reputation has as a starting point the public image of the bank in terms of competence, integrity and trust, which results from the perception of stakeholders (Susanto et al., 2013).

In the literature we have identified several economic theories on the elements that make up reputation. Because the costs associated with engaging in social responsibility campaigns that aim to increase reputation can reduce an organization's short-term financial performance, they appear to be against the interests of shareholders to maximize the company's value. However, in the literature on corporate social responsibility (CSR), it is claimed that establishing a good reputation can benefit a company's long-term financial performance. Some studies have examined how and when the reputation of CEOs has an effect of enhancing innovation, considering the quality of management as a mechanism for mediating this relationship. In addition, stakeholder pressures influence the relationship between the reputation of CEOs and the quality of management (Konadu et al., 2020). Another research explores the relative significance of four attributes of corporate reputation: overall reputation, quality of products and services provided to customers, social responsibility, and innovation (Lee and Roh, 2012). The relationship between the reputation of a company and its employees is of utmost importance, as employees actively shape the perceptions of stakeholders about the company. Especially in the banking industry, employees contribute to building corporate reputation through the quality of their interactions with customers.

We have summarized in Figure 1.1 five main elements of reputation.

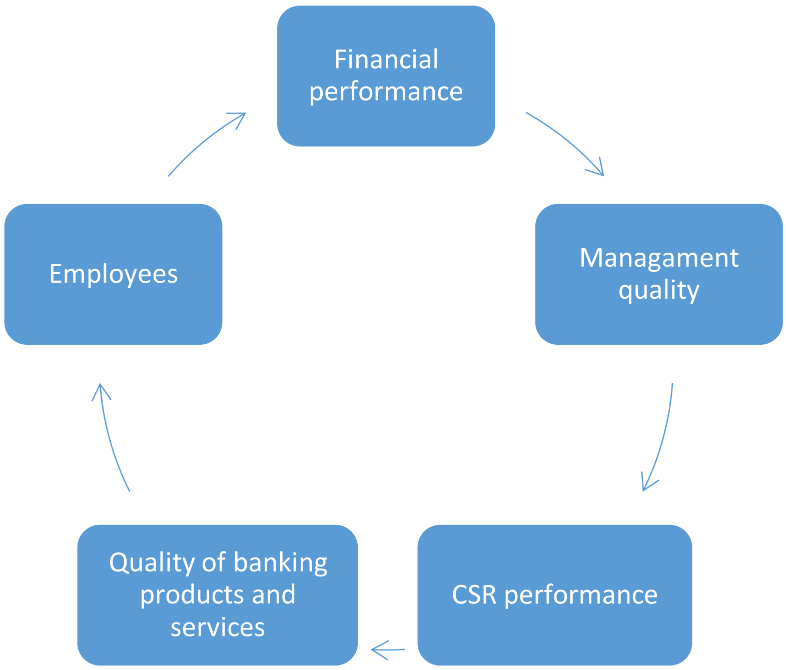

Figure 1.1. Pillars of reputation

Source: personal contribution, based on references from the literature

All these elements generate in the vision of the target audience a perceived positive value, which determines a direct effect on satisfaction, loyalty, recommendations and overall reputation.

Figure 1.2 exemplifies the path of dependency relationships between customer satisfaction, loyalty, reputation and recommendations.

Figure 1.2. Links between elements of reputation

Source: personal contribution, based on references from the literature

Thus, several links are created between the elements shown in Figure 1.2:

- ❖ The positive value perceived by customers is directly related to the level of satisfaction
- ❖ Satisfaction has a direct positive effect on loyalty
- ❖ Satisfaction has a direct positive effect on reputation
- ❖ Satisfaction has a positive effect through recommendations.

A bank's reputation is affected by business decisions, with direct implications on performance, which are generated by decision makers. From the literature, we have synthesized the factors that determine the bank's reputation.

- ➢ **Financial performance**. Shareholders, investors, creditors and many other stakeholders take into account primarily financial performance when assessing a bank's reputation. Although there have been several empirical studies on corporate reputation and reputation risk, they focus mainly on a single relationship, either the relationship between events detrimental to reputation and financial performance, or between corporate reputation and financial effects (Gatzert, 2015).
- ➢ **Quality**. The decision of banks to adhere to quality standards is important for improving its reputation. Although an increasing number of studies are being conducted in the field of banking services management, no conceptual model has been created to highlight the interdependencies between banking service quality standards and banking reputation (Wang et al., 2003).
- ➢ **Innovation**. Banks that differentiate themselves from the competition through innovative processes and unique, niche products tend to have a strong brand recognition and increase their reputation. The studies conducted so far have focused on determining whether the predisposition of bank managers to engage in CSR initiatives explains the level of innovation, performance, reputation and competitive success of their companies in the market. It has been found that generating innovation and achieving outstanding performance are determinants of the increased reputation of banks.
- ➢ **Ethics and integrity**. Banks with consistent ethical policies are reliable, in the opinion of stakeholders. The variable that measures the experience of banking customers from an ethical perspective is more eloquent compared to the emotion and attitude of the vast majority of bank customers, which allows us to conclude that ethical principles are the most valuable resources of a bank in strengthening their reputation.
- ➢ **The response to the crisis**. Stakeholders are closely monitoring how a bank responds to difficult situations. Any action during a crisis can ultimately damage the bank's reputation. Risky events can cause significant damage to a bank's reputation

and legitimacy. From the perspective of legitimacy theory, there are four strategies to restore reputation and repair legitimacy in response to a risky event. The annual report is used by banks to communicate these strategies to stakeholders and therefore the arguments explaining the strategies implemented can be considered as a means of managing reputational risk.

- **Safety**. Security policies are top strategic priorities for banks, in order to build trust and generate value. Ensuring security is one of the antecedents of the bank's reputation for avoiding patterns of customer uncertainty, which is the cultural variable most closely linked in the literature to customers' banking decisions. Cultural differences in terms of avoiding uncertainty should be used with caution when establishing business guidelines for bank managers.
- **Social responsibility**. The active promotion of social responsibility and environmental protection programs contributes to creating a reputation as a "safety net" that reduces risk. A bank's commitment to CSR practices improves its reputation as well as the predictability of cash flow.
- **Security**. Strong infrastructure to defend against physical attacks and threats to digital security helps prevent security breaches that could damage a bank's reputation. Despite the fact that banks in emerging countries have integrated security elements, user behavior continues to cause security vulnerabilities, which can damage the bank's reputation.

Chapter 2
Reputational risk in banking

Reputational risk is the current or future risk of adversely affecting profits and capital caused by unfavorable perception of the image by customers, counterparties, shareholders, investors or supervisors (Power et al., 2009).

Reputational risk considers the possibility of significant financial losses at the level of the credit institution as a result of the deterioration of the general public's perception about the bank's ability to adequately perform its functions. Reputational risk is often associated with liquidity risk. Negative information (whether true or not) about a credit institution can trigger a wave of mass withdrawals of deposits, with significant detrimental effects on the financial balance of the entity (Ferreira et al., 2019).

Reputational risk is a collateral risk in the sense that it is generated by a policy or the actual incapacity of the bank (in particular risk of non-compliance, operational risk or fraud) or presumed (rumors). It is also a media risk: reputation is often the result of an intangible perception, with media and communication significantly affecting reputation risk. It is a risk that is difficult to quantify and control from the moment it materializes.

Reputation risk remains one of the most evasive risks due to the difficulty of measurement as well as the lack of understanding of the mechanisms that generate this risk.

The source of reputational risk is the potential for negative publicity in terms of business practices and performance, whether or not they are true, but which may lead to a shrinking customer base, costly litigation, or revenue cuts.

In general, a reputational risk is any risk that may damage the image of banking organizations in the eyes of third parties. Often, damage to a bank's reputation is intangible and can occur gradually. However, there is clear evidence that equity markets are the first to react to the consequences of reputational risks (Perry and De Fontnouvelle, 2005).

Even if this theory is well known - the reaction of the scholarships, even if there are specialized strategies and departments at the level of institutions, we will present in a later chapter how things really happen - an event held in May-June 2018, with impact on value at stock exchange of a bank, following the occurrence of such an event.

A preliminary conclusion is that an effective management of reputational risk, at least at the current stage, can at most limit the losses generated, without being able to scientifically calculate the financial impact.

The conceptualizations of reputation vary from a perspective that considers reputation to be a resource from a sociological point of view to a perspective that sees reputation as the result of the social construction of an image for which significant resources have been allocated.

The main characteristics of reputational risk can be summarized as follows (Soana, 2016):

✓ It is a “diffuse” risk - it can appear starting from an internal or external event with direct or indirect impact on the bank;

✓ It is a “derived” risk, in the sense that it comes from a real action or error (risk of compliance, operational, financial or strategic), or assumed (rumor);

✓ It is a risk that is difficult to quantify a priori and its effects are difficult to control once it materializes.

From the point of view of Compliance specialists, the path to follow is towards prudent behavior. This is the path that the NBR is following very carefully through the Supervision Department.

The process of identifying reputational risks in the banking field can be considered a dynamic phenomenon that, in principle, develops depending on changes in reputational factors and the expectations of stakeholder groups. Online surveys of employees and customers are key factors in assessing bank reputational risks. These instruments have been used regularly for some time by large banks. Surveys are calibrated in such a way that, through the positive and negative assessments provided by stakeholder groups, they take responsibility for mitigating reputational risks (Zaby & Pohl, 2019).

Reputational banking risks can be identified as follows:

❖ **internally**, through the following ways:

 Control exercised by the internal control, compliance or audit structures;

 Controls, analyzes performed by other internal bodies for permanent control or risk management;

 Periodic control missions;

 Complaints analysis: customer complaints and cases of internal or external fraud;

 Exercising the current activities by the bank's staff and exercising the alert right.

❖ **externally**, in the following ways:

 Periodic supervision and control missions carried out by the regulatory / supervisory bodies (BNR, ASF, ONPSB, etc.) or within specific missions (verification of complaints, investigations carried out by criminal investigation bodies).

Although the idea that reputational risk management is an attribute of bank management is unanimously accepted, there are other actors that play an important role in this process:

• Risk Department

• Compliance

• Communication department.

We believe that the area of management, risk and communication have key roles; the communication department shall ensure that appropriate channels and methods are used to bring the message to the attention of stakeholders.

Measuring and managing reputational risk has generated many differing views on how most effective it is to assess it. Effective assessment techniques are important for researchers trying to examine the role of reputational risk as a precedent, criterion, or moderation variable in different contexts. Models used in the past to measure reputational risk include, but are not limited to, classification measures, reputational coefficients, and reputational identity indices.

Finally, the most effective way to manage the reputational implications of the risks to which banks are exposed is to use a two-way approach (Young and Hasler, 2010):

❖ The reputational impact of risk events is best managed through a comprehensive and well-understood regulatory framework, supported by clear communications.

❖ The reputational impact of misperceptions and information asymmetries is best reduced through integrated and efficient communications.

Studies conducted so far in the field of reputational risk management in the banking sector, ignored the identification of configurations of antecedent conditions for analyzing the interdependence between causes that lead to loss of banks' reputation (sanctions applied by international and national bodies, non-transparent communication of financial results, lack of mechanisms early warning of the occurrence of reputational risks and the direct effects of possible financial losses on reputation) and their performance.

The value of reputable capital in the banking sector is given by:

• the bank's cumulative reputation, including its self-promoted ethical image;

• economic performance - market share, profitability and economic growth;

• stakeholder interface - shareholders, employees, customers and suppliers;

• legal interface - civil and criminal litigation, including enforcement actions.

Consequently, the close symptoms of potential reputational capital losses include:

• loss of customers and loss of market share;

• loss of investors and increase in the cost of capital;

• loss of talent and key employees;

• increase in acquisition costs.

Reputation losses will be reflected in low operating revenues as customers migrate to competitors, increasing the costs required for day-to-day operation, including the opportunity cost - all of which are necessary to maintain reputation.

Chapter 3

Various perspectives of reputational risk management in the banking field

Reputation risk is usually the consequence of management processes, rather than separate events, and therefore requires risk control approaches, thus being different from operational risk (Walter, 2008). According to this definition, a reputable event could occur that triggers an identifiable monetary decline in the bank's market value and market capitalization. After subtracting from this value of the loss of market capitalization, the difference between the estimated income and the realized income, to which we add the costs related to fines and other penalties, the costs of civil litigation, the result can represent the impact on the bank's reputation.

Large banks, which are benchmarks in the market, tend to suffer more significant reputational losses than small banks with a smaller market share - this being the result of analyzes of reputational losses associated with identical events. One of the examples we refer to in this context is the impact generated by the application of sanctions generated by non-compliance with the international embargoes that we will refer to in the next subchapter.

Reputational risk arises when the event produced has affected or is likely to affect the image of the bank.

The quasi-loss occurs when the operational risk event produced did not generate a loss, but there was a high potential to record a loss. Avoiding loss was possible due to favorable circumstances. The loss that was avoided due to the timely discovery of an attempted fraud, by the rigor of the controls performed is not a quasi-loss, as the risk was not avoided by chance, but by a good functioning of the internal control device.

Following the analysis of studies based on the analysis of reputational risk from the perspective of operational losses, we noticed that there is still only minor progress in quantifying reputational risk. This issue is only indirectly addressed by examining the reputational impact of operating losses. Specifically, we measure reputational losses by examining the reaction of a bank's share price to the announcement of a significant operating loss. The percentage of losses is calculated as stock market capitalization losses compared to the period prior to the occurrence of the operational risk event (Chavez-Demoulin et al., 2006).

From this perspective, any decrease in the market value of the bank, which exceeds the value of the announced operating loss, is interpreted as a loss of reputation.

Solutions to reduce or limit these risks apply on a one-off basis, but there are certain situations that are of a general nature; some of them refer to the implementation of key indicators to help identify risk exposures before they materialize in losses. In general, their main objectives are:

- ❖ to act as indicators of early warning by identifying the problems that cause the occurrence of operational risk events, namely the increase of the probability of occurrence and / or impact, provided that an event has occurred and that indicates the probable risk exposure;
- ❖ to take risk management actions before the actual losses occur;
- ❖ to strengthen the usefulness and understanding of other components within the operational risk.

It is the responsibility of every banking employee to comply with the internal codes governing the fight against corruption and influence peddling, which describe the various types of conduct that may constitute acts of corruption, as well as internal procedures (eg gifts, business meals). or external travel, various sponsorship actions, etc.).

Compliance with internal rules allows:

- ➢ employees - to avoid involvement in an even more widespread act of corruption, any situation or conduct that may call into question their independence and integrity;
- ➢ partners - to guarantee integrity by implementing appropriate protection measures;
- ➢ the bank - to ensure that the accounts are not used by customers for the purpose of laundering the proceeds of corruption.

The way an existing or potential customer perceives a bank's reputation in the online environment is extremely important for its success. A favorable perception of the online reputation makes it easy to attract new customers, to sell products and to increase profitability. On the other hand, if a negative image has been created, it becomes very difficult for a bank to grow its business.

The online environment has seen a significant boom lately. Information, both positive and negative, can spread with astonishing speed in the online environment. A negative image created in the press, especially online, related to banking products, employees, customers, market behavior, has immediate effects on financial performance. It is extremely important for a bank to regain control over its reputation and to accurately manage every detail that can change the way customers perceive it.

Unfortunately, banks do not always have absolute control over their reputation in the online environment. Past customers and potential customers are free to develop their own opinions about the services, products or manner in which a bank promotes its business and share them with friends and family. But, although a bank cannot fully control the opinions distributed in the online environment by potential competitors or dissatisfied customers, it will be able to manage its reputation with the help of digital marketing specialists.

Reputation management will allow banks to monitor what is said in the online environment about their image and track how it is perceived by stakeholders and make the necessary changes to try to shape a positive image.

Banks operate in an area where online reputation is essential. Because people are particularly protective of money or investment, they want to know that their money will be safe at the institution where they decide to make a deposit or an investment. If there are poor reviews or even speculation about theft or unethical behavior, it could have serious consequences for the banking institution.

As banking systems are prone to hacker intentions, customers lose confidence in the degree of protection that these institutions can place on their finances. In this case, managing your online reputation can prevent a negative opinion from going viral. If the image and activities of the online promotional environment are managed correctly, an unfavorable action can be stopped from the beginning before it materializes and leads to a real image crisis for a bank.

Chapter 4

Correlation study on customers' perception of banking reputation

Customers' perception is different and always has both subjective and objective reasons regarding the bank's reputation and the criteria for which customers choose the bank they work with. The starting point for the quantitative research was the preparation of a questionnaire, entitled "The current context - the perception of the bank's reputation in 2020". After analyzing the opinions of specialists in the banking field, we naturally turned our attention to those to whom all the steps in the field are addressed: customers.

We thus created an online questionnaire that we promoted on various platforms (Whatsapp, Facebook, Linkedin) and we requested the completion by all persons who have at least a current account opened at a bank in Romania, by accessing the link: https : //forms.gle/5HTY7NpziE5AYQyV8.

This study is based on primary data collected in November 2020 and is based on the online design and administration of the questionnaire presented in Annex 2.

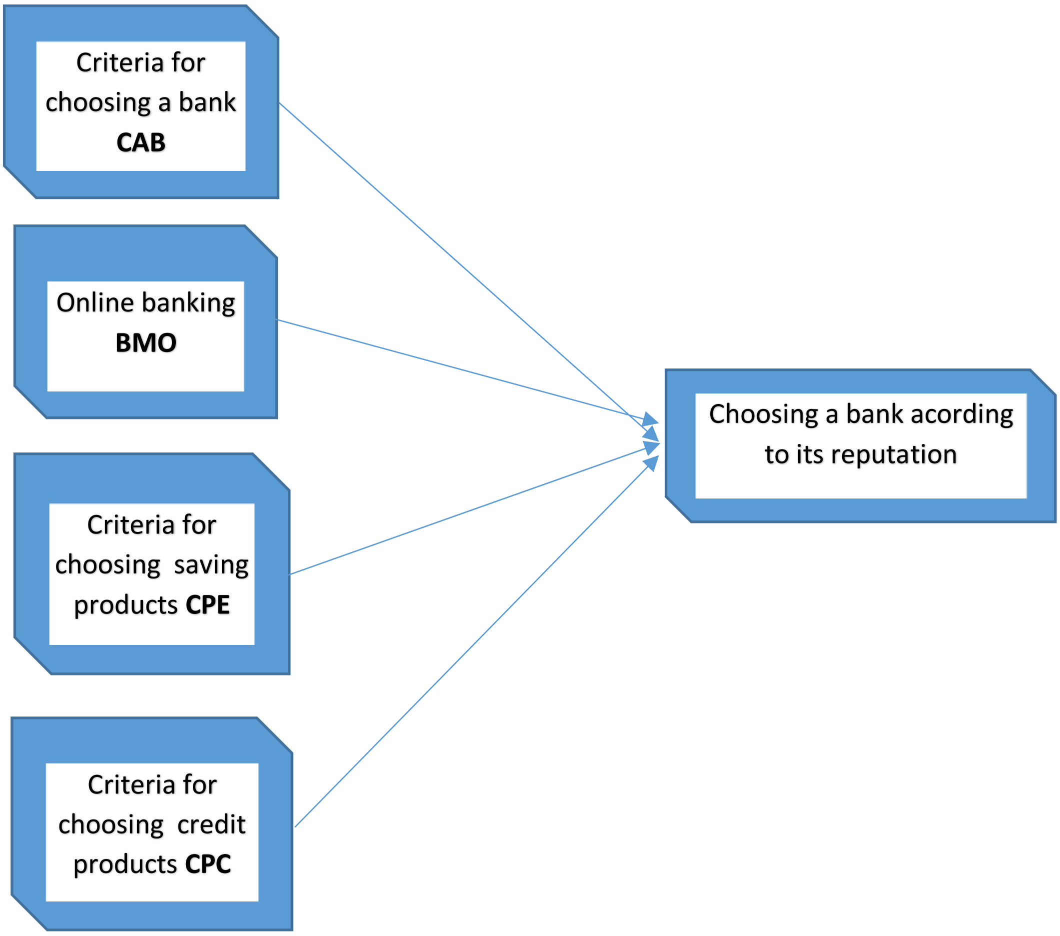

Figure 4.1. Research conceptual framework

We gathered 230 answers to this questionnaire and we consider them relevant, given their dispersion, both according to the sex of the respondents, the age groups, but also the domicile in rural or urban areas.

The results of the quantitative study on customer perception of banking performance reflect the following aspects:

- most respondents consider that the choice of the bank is not given by the proximity of home and place of work or that other factors also impact this aspect;
- for the large mass of customers, it seems that stock market performance is not an essential criterion, especially since there is no risk of losing existing funds (all banks have a deposit guarantee agreement for amounts up to 100,000 euros / client) and transactions are made without large differences between accounts; in addition, not all banks are listed on the stock exchange;
- it is confirmed that employees are still an essential factor in choosing the bank with which a client works. Next, bank management should strengthen the idea that employees are the most important asset and that special attention needs to be paid to maintaining, training and motivating them;
- the choice of banks can be given by the employees, but it is not necessary for them to be contacted at the banks' headquarters, but it is also possible to opt for remote communication;
- the evolution of transactions carried out through remote banking channels has experienced a spectacular dynamic lately and appears as a geometric progression the tendency to change the option of customers to perform such operations. A detailed analysis of the type of clientele that prefers online banking, shows us a considerable advantage especially in the case of young clients;
- Once they started experiencing the online environment, customers understood that banks make considerable efforts to provide transaction security through the applications offered. Thus, starting from identifying customers in the application through innovative methods (retinal scanning, fingerprinting, etc.), to sophisticated software tools - all this shows that the future takes shape on this aisle - that of conducting online transactions with the bank;
- clients claim that they prefer classic savings products instead of investment funds; In general, customers prefer safe investment options, even if they offer a lower

return, instead of options with a possible higher return, but unsafe and especially unsecured;

- the banking reputation has a major role at the time of the decision to choose the clients, which practically entrusts the safety of carrying out the personal or family plans;
- customers' perception that a loan with a low interest rate, or a promotion through which the interest rate is reduced in a limited period of time, may lead to the false assumption that that loan is also the most advantageous;
- the level of financial education of the clientele is a low one, being necessary several steps that must be completed.

The results of the hypothesis testing are presented in the table below:

Hypothesis	**Asymptotic significance related to Chi Square**	**Pearson R**	**Validation**
The criteria for choosing a bank influence the positive perception of customers on its reputation.	0.00002	0.239	**YES**
The relationship with the Bank in the online environment influences the positive perception of customers on its reputation.	0.159	0.136	**NO**
The criteria for choosing savings products influence the positive perception of customers on its reputation.	0.070	0.152	**NO**
The criteria for choosing credit products influence the positive perception of customers on its reputation.	0.00042	0.348	**YES**

As a preliminary conclusion, banks act proactively to preserve or even improve their reputation, which will cause customers to stay with them. Once this link is created through which customers actually become dependent on their bank through their cards, cash receipts, overdraft options, check issuance, automatic debits for bill payments or other scheduled payments, receipts from partners through the account already provided, all these are the levers by which banks understand that moving customers to another bank can only be done in the event of a major reputational event, otherwise the cost of moving - both financially, but especially time and habit - will be so high that customers will do very hard this step.

Chapter 5

Configurational study on banking reputation in the context of a crisis - an approach through qualitative-comparative analysis

The purpose of this study is to develop an effective approach to managing reputational risks in Romanian banks. It is a study that develops a holistic approach to measuring and managing reputation risk, the ultimate goal being to be implemented by banks in practice. The main focus will be on developing a model based on indicators for reputation assessment.

We used a hybrid research method - qualitative-comparative analysis (QCA), in terms of examples analyzed in research in the literature; this method is useful for treating complex causal hypotheses in terms of necessary and sufficient conditions under the constraint of an average number of validated cases or answers.

We created such a questionnaire, which was sent for completion only to the employees of the Compliance Departments, from 12 banks in Romania. It was sent to these specialists in the field, because the reputational risk is formally managed at the banking level at the level of this department, and their employees are best able to express their competent views on this subject. 40 complete responses were validated, sufficient for their analysis by the fsQCA method.

The questionnaire was created on the Survio platform and was sent directly to the contacts in the Linkedin platform, employed in Compliance, but it was also sent to a professional group, which includes only Compliance Officers. The web address where the questionnaire can be consulted is: https://www.survio.com/survey/d/D1T7E3X6I8L9W2F8I

The questionnaire had 17 questions, grouped into three categories:

- five questions with a certain possible answer, with specific topics for reputational risk management for banks during the crisis, in which respondents could choose the proposed topics, only one of the options: total disagreement, disagreement, neutral, agreement and total agreement. The results were processed with the help of fsQCA software in order to adapt the results and the anticipation model, to the current period, in which a financial crisis is foreshadowed, with an impact on the banking system, but also on the economy in general;
- four open-ended questions, in which each respondent shared his or her own vision on the topics proposed for debate. The results were processed using Nvivo software and its main purpose was to identify a model for anticipating reputational risk;
- eight questions with predefined answers, with the possibility of choosing multiple answers. The results were individually processed to understand the current context

of reputation perception from the point of view of those who analyze and make decisions.

This study explores how the causal configurations of antecedent conditions associated with the research model (remote banking applications, crisis-specific legal regulations, crisis-specific cost reductions, and innovative measures applied during this period) have a significant impact on the outcome. expected: the interdependence between the financial crisis and the banking reputation. The conceptual research model (Figure 5.1) reflects the expected result as a linear function whose arguments are the four antecedent conditions.

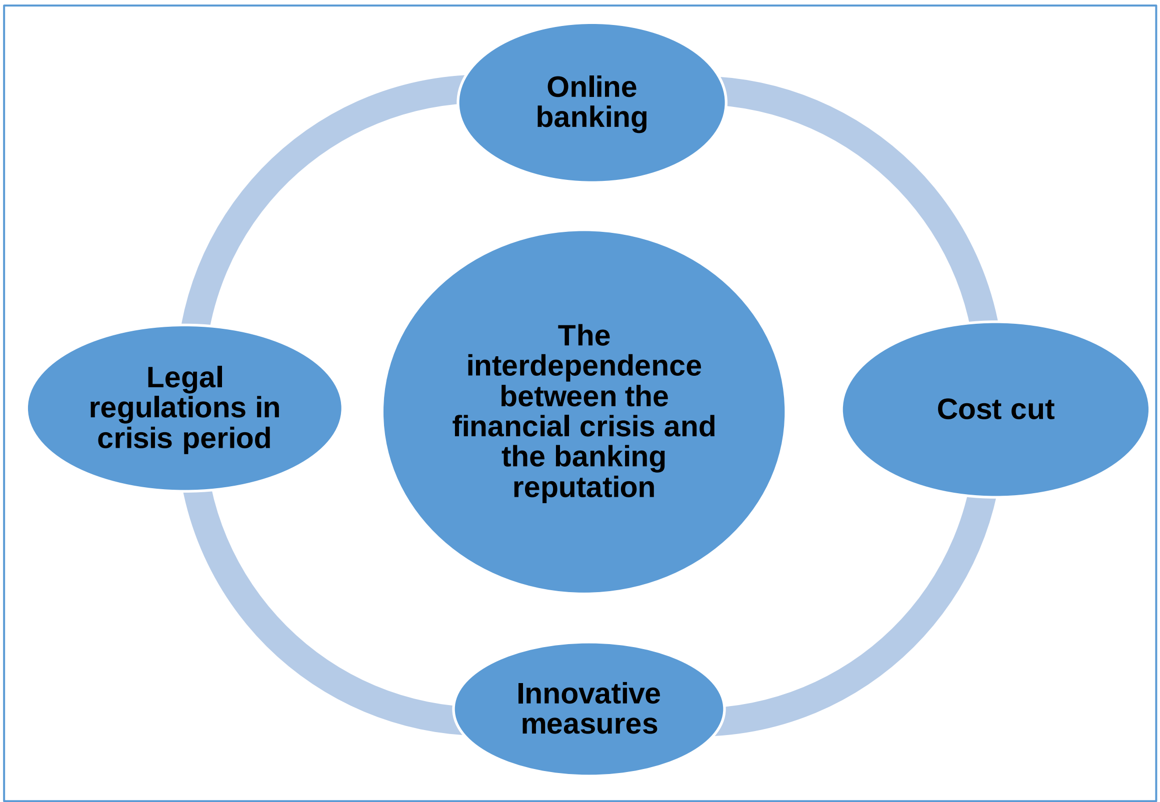

Figure 5.1 Conceptual model

Source: original contribution

The conceptual research model focuses on the hypothesis that the relationships between the antecedent conditions used in this study are asymmetric, because the causes of the risks are diverse. Therefore, alternative combinations of causal conditions may result.

We transformed the values for the causal conditions (ebanking, legal regulations in time of crisis - legal regulations, cost cuts - costcut and possible applicable innovative measures - innovmeasures) and the result (interdependence between periods of financial crisis and banking reputation - negativeeffects) into scores of the vague set set from 0 (definitely no) to 1.00 (definitely yes).

Table 5.1 reflects the calibration of causal conditions and outcome, taking into account their values on the specific evaluation scale.

Table 5.1. Calibration of measuring scales

The point of the scale	The value of the vague crowd	Membership
Completely agree / Most likely	1	Complete agreement
Agree / Probably	0.75	Rather agree, disagree
I do not approve or disapprove /	0.5	somewhere in the middle (neither agree nor disagree)
Possible	0.25	More disagreement than agreement
I don't agree / Probably not	0	Complete disagreement

Source: fsQCA software, adapted from Ragin, C. C. [124]

The configuration study in this doctoral thesis seeks to identify the answer to the question: "Is the reputation of banks affected during the financial crisis?" through the fsQCA methodology, investigating the opinions of the people directly involved, respectively 40 compliance experts from 12 top banks.

Table 5.2 reflects the abbreviated insertion of the four preceding conditions and the expected result in the fsQCA software.

Table 5.2 - Labeling of the four previous conditions and the expected result

<table>
<tr><td rowspan="4">Antecedent conditions</td><td>banking reputation is affected in the context of new remote banking applications</td><td>ebanking</td></tr>
<tr><td>the legal regulations applied during the crisis also affect the reputation of the banks or only their profitability</td><td>reglegale</td></tr>
<tr><td>the cost reductions that banks apply in times of economic crisis affect their reputation</td><td>reducericost</td></tr>
<tr><td>periods of economic crisis, represent for banks, more of a risk than an opportunity to increase their reputation</td><td>riscreputatie</td></tr>
<tr><td>Expected Result</td><td>negative effects on reputation in times of crisis</td><td>efectenegative</td></tr>
</table>

Source: author's own contribution

The Quine-McCluskey algorithm offers three complex solutions that reflect the combinations of antecedent conditions that influence the outcome: the interdependence between the financial crisis and the banking reputation. All these combinations (presented in Table 5.3) denote the sufficiency relationship within the configuration model.

Table 5.3 - The complex solution offered by the Quine-McCluskey algorithm for the sample of 40 cases associated with the configuration model

The complex solution	Gross coverage	Unique coverage	Consistency
*reducericost*riscreputație*	0.75	0.16	0.96
*ebanking*reglegale*riscreputație*	0.59	0.02	1
~ebanking~reducericost*~riscreputație *~reglegale*	0.29	0.06	0.88
Solution coverage score: 0.86			
Consistency score of the solution: 0.92			

Source: fsQCA software output

The "~" symbol associated with a precedent condition denotes a low impact on the causal recipe, while its absence illustrates a high impact on the expected result.

The first causal configuration offered by the Quine-McCluskey algorithm highlights a high impact of the association between the previous conditions of cost reduction and re-reputation on the result (interdependence between financial crisis and banking reputation), with a consistency score of 0.96 and a gross coverage score of 0.75 . Even if the consistency score is not maximum (1) as in the case of the second causal combination, the highest coverage score of the three configurations places this causal combination in the first position in terms of impact on the result, as the score coverage reflects the extent to which the solution explains the result.

The second configuration proposed by the Quine-McCluskey algorithm is a combination of a high impact of the previous ebanking, reglegal conditions and re-reputation on the result. This combination, although it provides the maximum value of the consistency score, is placed in the second position due to the lower coverage score (0.59) compared to the first causal combination.

The third configuration generated by the Quine-McCluskey algorithm involves a combination of a low impact of all four previous conditions (ebanking, cost reduction, re-reputation and legal) on the result. Although the consistency score is high (0.88), the configuration is characterized by a much lower case coverage score (0.29) than in the two configurations presented above.

In the selected sample of 40 cases, the principle of equivalence is met as 3 causal configurations lead to an expected result: the interdependence between the financial crisis and the banking reputation.

The analysis of the necessary conditions illustrates the size of the effect of a configuration in nature to constrain its effects on the result, showing to what extent a causal condition is an impediment to obtaining the result. necessity. (Table 5.4).

Table 5.4 - Necessary conditions for achieving the result

Tested conditions	Consistency	Coverage
ebanking+reducericost+riscreputație+reglegale	1	0.83
ebanking+riscreputatie+reglegale	0.98	0.87
ebanking+ reducericost+riscreputatie	0.97	0.84

Source: output fsQCA

For the analysis sample, the combination with the highest consistency (1) is the one of all four previous conditions, but this combination has the lowest coverage score (0.83) compared to the other two combinations. Thus, we note that the same context is maintained as in the case of the sufficiency analysis, in the sense that we cannot identify a causal recipe that surpasses the others both in terms of consistency and necessity.

A bank's reputation is affected by business decisions and the performance generated by decision makers. The managerial implications of this study are multiple. First, from a financial performance perspective, shareholders, investors, creditors and many other stakeholders primarily consider financial performance when assessing a bank's reputation.

Chapter 6

Qualitative research on the perception of banking experts on the reputation of institutions in this field - a storytelling approach

The methodology used for this stage was storytelling, being investigated the 4 topics proposed for debate:

- What is the bank department that manages reputational risks?
- What are the best methods to prevent the occurrence of reputational risks?
- What is the most important factor that can trigger a reputational risk?
- What are the best measures to counter the occurrence of reputational risks?

Data analysis was one of the most important steps in the qualitative research process, and in the case of this research we used classical content analysis, similar to comparative analysis. Coding is another interpretive technique that organizes data and provides the means to introduce its interpretations into several quantitative methods.

The 40 respondents have a higher degree of knowledge and expertise in the banking sector; they answered the 4 questions on time, sharing their professional experience. As we detailed in the previous chapters, the respondents work at 12 of the top banks in Romania and all are employed as Compliance Officers or Directors / Heads of Service within the Compliance departments of the headquarters of these Banks.

The first open question investigates which department in the bank is responsible for reputational risk.

Most of the responses, as was natural, turned their attention to the **Compliance Department**, being the one that formally ensures the management of reputational risk management. The advantage of taking the information from the most important banks in the system is that it analyzes the applicable models and shows us other examples of departments involved. Formally, it is obvious that the responsibility for reputational risk lies with the **bank's top management**, with compliance employees being those who analyze the data, present proposals or apply risk management strategies. At the same time, the **Communication department** ensures the relationship with the media, handles all the official communiqués of the bank and puts into practice the way of transmitting to the public the strategic objectives and information.

The bank's reputational risk is the responsibility of each employee. Managing these risks is the responsibility of the Compliance Department. There is a difference between who is responsible for the reputation - and here is the role of each employee of the bank, through the current, specific activity - and who manages the reputational risk formally - where the responsibility for all actions and strategy lies with the Compliance Department.

The second open question seeks to identify the main measures to prevent the occurrence of reputational risks, with respondents being asked to propose three such measures. There were extremely many answers offered, very diverse, because the prevention area is the activity that must be permanently strengthened at the banking level. Without prevention activities, in case of negative events, the ability to react is much more difficult and the risks can cause very serious effects. Training staff in recognizing reputational risks is also an aspect of the prevention area. Beyond computer systems that can transmit alerts or signal anomalies and risks, all employees of the bank must be prepared to recognize and alert immediately to any reputational risks.

The third open question concerns the most important factors that can trigger a reputational risk for a bank. Poor financial performance - it is important to understand if a bank has a low profitability because expenses have increased in a certain period (due to significant investments, implementation of information systems, etc.), which will have a positive impact in the next period or decreased income, because the bank has become unattractive. Another area that affects financial performance is that of non-performing loans, which affects profitability. Any of these causes lead to a decrease in customer confidence, diminish their interest in the bank's products, and the domino effect is immediately reflected in the reputation. At the same time, financial losses - either those arising from sanctions, or those arising from fraud, operating losses, etc. - affects trust in the bank and affects its reputation.

The fourth open-ended question aims to identify respondents' perceptions of measures that can be applied by banks to counteract the negative effects of reputational risks. Customers are the most important players in managing reputational risk. Other key stakeholders include regulators, employees and investors. But in a world increasingly influenced by social media and global online communications, managing customer expectations and perceptions is essential to the favorable reputation of banking institutions.

NVivo software allows the creation of an overview of word processing processes, in which those of at least 7 characters prevail, most often used by compliance officers who responded to the questionnaire.

Figure 6.1 shows the cloud of words in which the most commonly used nouns were illustrated: “compliance”, “communication”, “management”, “reputation”, “responsible”, “personnel”, “control”, “risks” , «Processes», «image» and showing the essential elements of the bank's reputation.

Word clouds (also known as word collages or tag clouds) are visual representations of words that give more importance to the words that appear more frequently. Figure 6.1 illustrates the word cloud associated with the answers to the 4 open questions discussed above.

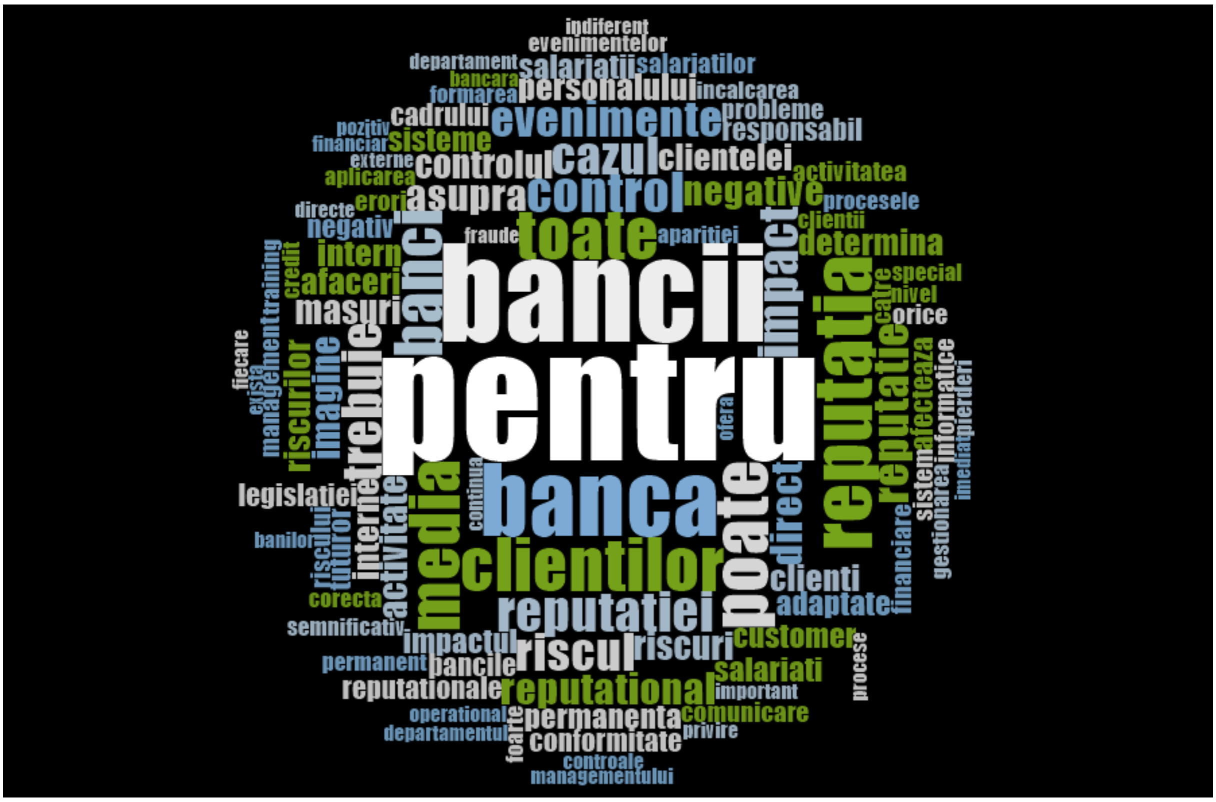

Figure 6.1. The cloud of words associated with the qualitative study

Source: NVivo 12 software image capture, personal processing

The query by the keyword COMPLIANCE highlights the fact that the department of banks dealing with reputational risk management is the Compliance Department.

The query after the keyword COMMUNICATION, shows that a media transparency and a coherent strategy are needed through which strategic, essential decisions, activity and organizational policies, are communicated correctly to the general public, stakeholders, customers, prospects, investors.

The query after the word REPUTATION, determines a complex gear that summarizes the role of the departments listed above, the applicable strategy and the organizational purpose of any bank. Related notions such as notoriety, dominoes with immediate repercussions, events, risk, responsibility, management, etc. are used, the management of reputational risk being in fact the consequence of unfavorable actions that have affected the bank's credibility.

The query after the word RISC, with a direct focus on REPUTATIONAL RISK, summarizes in an extremely useful graphic form, the causes that determine the loss of reputation, the risks that are in fact the consequence of situations that led to possible losses, having a consequence on reputational risk, which it can be managed by engaging the departments listed above and applying strategies that are carefully weighed and possibly planned in advance.

The qualitative research involved an observational examination of the experiences lived and shared by the Conformity specialists from the Romanian banking system. Some of them were faced with complex, complicated situations, others managed only simpler situations related to the management of reputational risks.

Chapter 7

Perception of the bank's reputation in the context of the COVID-19 pandemic

The methodology involved the formulation of 8 questions, to which the answers were predefined, in some situations it is possible to check a single answer, in others it is possible to choose multiple answers, or to choose all the answers presented.

Thus, this component of the questionnaire is the one that best responds to the basic need: identifying the current context regarding the banking reputation, in order to identify the factors that determine the creation of a model for anticipating and preventing the occurrence of reputational risks.

The results of this study are summarized below:

- The opinion of specialists was that in the last 10 years, the assessment of reputational risks has developed, which shows the concern of banks to focus on this risk, which has become increasingly important. Excessive risk-taking, inefficient risk management practices and increased reputational risks can have a negative impact on banks' ability to attract deposits and investments;
- The debates related to the reputational risk have as starting point an operational risk, which determined the loss of reputation. We consider that operational risk is the one that underlies a reputational risk; the major difference is that operational risk is quantifiable, its impact can be clearly delineated, while the impact of reputational risk is difficult to quantify;
- Reputational risk is more important than operational risk;
- Reputational risk is more important than credit risk;
- Important means of control for reputation risk management are: mechanisms for immediate alerting of management and compliance department, staff training and awareness actions, effective KYC procedures (Know your customer) and tools for filtering and establishing customer profile;
- The most important factors that lead to reputational risks are: customer satisfaction and compliance with legislative and regulatory requirements;
- The measures applied by banks to identify reputational risks in practice are: media monitoring and quality assessment processes;
- Prevention mechanisms are the key element of reputational risk management.

The answers provided by specialists are extremely useful for the ultimate goal of this doctoral research - to provide the "raw material" that leads to the main elements of the application that can identify methods to prevent the occurrence of reputational risks.

Through the received data, the unpredictable elements are eliminated, which if carefully monitored, can lead to alarm signals that can be managed properly.

The limitations of this study are those related to the possibilities of answer only from the list provided (for the 4 questions where there is the possibility of multiple answers), this situation limiting any interesting or exceptional punctual answers. However, the questionnaire was designed after a long time spent in the analysis of studies already conducted, following interviews with specialists in the field and had already crystallized the main ideas that could determine an overview.

Chapter 8

Design and implementation of an online platform to anticipate the occurrence of reputational risks in the banking sector

In this stage of the research we focused on identifying and designing a model to anticipate the occurrence of reputational risks, by identifying relevant reputation risk factors for banks, with an emphasis on developing a model based on indicators for reputation assessment.

In this sense, we designed and developed the online platform www.rrisk.ro, which integrates an operational model that allows anticipating the occurrence of reputational risks in a bank.

The indicators were carefully analyzed from the perspective of anticipating the business model that will be used globally in the banking area, by analyzing the topics developed in the national and international projects in which we participated. The most important impact in determining the calculation elements was represented by the studies carried out, mentioned so far, the results obtained and the resulting values.

The synthesis materialized in:

- Clusters: there are 13 clusters, which reflect risk categories;
- Indicators: each cluster has from 1 to 11 indicators; the indicators were extracted from the research conducted;
- Indicator value: each indicator was assigned a value from 1 to 10, where 1 represents low impact and 10 represents very high impact, the level of value being given by the mix of elements mentioned above: doctoral research, opinions of specialists, but also own experience gained in banking, in most areas of activity. There are a total of 60 indicators, and the average level of the impact factor is 6.67.

The "Credit Risk" cluster has 11 selected indicators that can determine the impact on reputation from a commercial perspective. Lending indicators can bring notoriety to banks that have a good credit offer or they can quickly lose their customers if the credit offer is not attractive, 9 of the indicators having commercial valences. The other 2 indicators belong to another credit area, non-commercial, but with significant financial impact, on the non-performing loans segment.

The "Deposit Risk" cluster reflects 9 indicators, which combine the following components:

- commercial impact and communication of tenders,
- the impact of pricing, respectively the interest rate offered by the bank for deposits,

- the impact of reputation - most importantly, because a major reputational risk, leading to massive withdrawals of savings products, can lead directly to the bankruptcy of a banking institution, due to the colossal costs it could have to obtain of liquidity needed to honor these withdrawals quickly.

The "investment fund risk" cluster is based on the idea that investment funds also fall into the category of savings products, but have been treated separately as there are significant differences from deposits.

The "customer risk" cluster reflects two indicators: decrease in average equipment per customer and customer retention: number of customers who closed their business relationship with the bank (> 5% of the average balance).

The "stock market capitalization risk" cluster does not apply to all banks, as not all banking institutions are listed on the Stock Exchange; there are cases in which the parent bank is registered on the Stock Exchange in the country of origin, but it is considered a strict impact for Romanian banks, subsidiaries or not of some international financial groups, only if they are listed on BVB - Bucharest Stock Exchange.

The "human capital risk" cluster considers the impact on the effect that employees can have on all other indicators analyzed from a banking perspective.

The "transaction risk" cluster denotes the idea that the type of transactions represents, together with loans and deposits, the main source of income for banks. Multiple analyzes performed over time have tried to prioritize bank revenues, depending on value, weight, facility, security, etc.

The "risk of remote banking services" cluster integrates the following indicators: decrease of transactions performed through remote banking channels, decrease of active internet banking services of the clients, decrease of active mobile banking services of the clients.

The cluster "Risk of territorial units and POS" analyzes: the decrease of the number of territorial units, the decrease of the number of POS and the decrease of the number of transactions performed at POS.

The "Risk of cards and salary payment agreements" cluster reflects the following indicators: Decrease in the number of salary payment agreements concluded; Decreasing the number of customers who receive their income from salaries in the account; Decreasing the number of debit cards in lei; Decreasing the number of debit cards in foreign currency and Decreasing the number of credit cards.

The "Operational Risk" cluster illustrates the increase in the number of operational risk events, the increase in the number of internal frauds and the increase in the number of external frauds.

The "financial risk" cluster identifies the technical transposition of all actions in the commercial, marketing and management area.

The "media risk" cluster has only one indicator: Negative media articles, but from a reputational point of view it is extremely important.

The risk levels have associated intervals and a name that reflects the level of risk resulting for each bank; to create a visual effect we also assigned a traffic light color, an idea taken from the many software applications with alert mechanisms:

Table 8.1. Risk level assigned to the final score of each assessment

Scores	Risk level	Color
[0 -50]	Low risk	green
[51-150]	Medium Low Risk	yellow
[151-251]	Medium High Risk	orange
[251-400]	High Risk	red

We performed four scenario simulations:

1. A Bank – score 47, low risk

In terms of reputational risk, the assessment is "green" and under these conditions, the situation is fine.

2. B Bank – score 148, medium low risk

In terms of reputational risk, the assessment is "yellow" and under these conditions, the situation is fine. We can define this evaluation at the **Validated** level, and the main characteristics of this level are the following:

- Reputational risks are properly managed
- Although the system of governance, risk and internal control is generally effective, some shortcomings or shortcomings in key procedures, processes or controls have been identified.
- Some corrective actions require monitoring by the responsible departments

3. C Bank – score 151, medium high risk

In terms of reputational risk, the assessment is "orange" and in these conditions, the situation is alert. We can define this assessment at the level **It needs improvement**, and the main features of this level are the following:

- Reputational risks are not sufficiently assessed or managed;
- Significant weaknesses or deficiencies have been identified in various components of governance, risk management and controls or procedures, causing a general weakness in reputational risk management;
- The assessed bank must closely monitor the identified actions to correct the situation.

4. D Bank – score 258, high risk

In terms of reputational risk, the assessment is "red" and in these conditions, the situation is critical. We can define this evaluation at the **Unsatisfactory** level, and the main characteristics of this level are the following:

- Reputational risks are major and not properly managed; the activity is in danger;
- Serious weaknesses in governance, risk management and the internal system have been identified, which can have a serious impact, including on the risk of insolvency, liquidation, bankruptcy;
- Corrective action plans are needed as soon as possible.

The risk awareness assessment reflects the view on how significant risks are identified, assessed and managed within the assessed bank. There is a need for the involvement of all departments involved and their managers in risk management and their contribution to the promotion of strategies in accordance with the reputational assessment performed.

Chapter 9

Final conclusions, personal contributions, managerial implications, research limitations and further research directions

The banking system is in a constant movement and transformation, and the measures must be adapted to the business environment and the context in which the events that may lead to these risks take place. Reputation is determined not only by performance, but also by the external perception of the public and stakeholders. Therefore, efforts must be made to improve external understanding and reduce the information asymmetry between a bank and stakeholders: the greater the asymmetry, the more relevant the role that reputation plays in the success of the business.

The main advantage of the model integrated on the www.rrisk.ro platform is that it has immediate applicability. Another advantage is that the model can be recalibrated according to the realities of the banking market at any time, because the weight of indicators can change depending on market developments, consumer perception or the context determined by the evolution of the banking system. The system is also visionary, because it includes many elements of impact for the conduct of banking operations online and takes into account the prospects of customer relations with the banking environment, especially through devices, to the detriment of frequent trips to the bank and direct interaction with a employee of the bank. Because the research in this doctoral thesis also had an impact in the area of banking activity in the context of the Covid 19 pandemic, it can be easily seen that a new trend has been created, which is determined by social distances, with prospects of maintaining longer-term restriction, creates the premises for accelerated advancement in technology.

The in-depth analyzes carried out during the doctoral research period, contributed both at a theoretical level, by taking advantage of the research already carried out, but also by developments of new research directions, determining managerial implications from the analyzed data.

In the quantitative study, it was demonstrated that banks act proactively to preserve or even improve their reputation, which will lead customers to remain loyal. The objective is a strategic one and aims at a long-term relationship, even of dependence, considering the fact that all the products held (accounts, cards, overdraft options, scheduled payments, direct debit, automatic payment of invoices, etc.) determine an interconnection to which customers will make the decision to move to a competitor only in the event of a major reputational event. On the contrary, the cost of moving - both financially, but especially time and habit - will be so high that customers will find it very difficult to do so.

Both in the research phase based on storytelling and in the one with predefined answers - both addressed to specialists in the field - resulted a main idea, concretely defined by the concept that the most important aspect of reputational risk management in banking is that of anticipation. of the occurrence, in order to be able to take measures before its manifestation. That is why the software designed and integrated in the online platform responds exactly to the need identified in all years of research, that of creating an application in which to enter clear, quantifiable and measurable data to determine whether a bank can be exposed or not to reputational risks. Throughout the research I noticed that if the reputational risk is triggered, the only option is to limit the damage caused, and the impact is difficult to control, but also to quantify. Here that, if the level of reputational risk exposure for a bank is identified, by falling into one of the 4 levels, it is possible to act preventively and to reach at least effect limitations, if not to cancel the occurrence of effects caused by risks.

The challenge of the next stage, after the online platform www.rrisk.ro will be used concretely in banks and possibly recalibrated according to certain indicators that will undergo greater variations, is to identify a set of standard measures, applicable for each level corresponding to the level of risk of the assessed bank and which can be included in the final forecasts of the audit missions that assessed, measured and anticipated the risk at the general level of the bank and the reputational risk in particular.

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