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ROLE OF CORPORATE DISCLOSURE ON REPUTATION AND LOYALTY DEVELOPMENT FOR BANKING ORGANIZATION

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Abstract:

Disclosure of corporate affairs and financial information helps the company to attract the investors for the investment in company. The purpose of this study is to investigate the role of corporate disclosure on the reputation and loyalty development of banking organization. For the investigation panel data regarding financial performance disclosure on the stock prices of selected banks in India have been examined with the help of E-views software. Secondary data have been collected from the official websites of the banks. Various statistical tools have been applied namely, Panel regression, correlation and unit root test. Finding of the study indicated that corporate disclosure plays important role in building reputation and loyalty development for the banking organization.

Keywords: Banks, Corporate disclosure, Reputation, Loyalty Development

INTRODUCTION:

Disclosure of corporate affairs is very important for the company to show relevant information related with company. There are stakeholders who are interested in the affairs of the company to invest their money. Usually companies disclose information through various financial reports which are regulated by different bodies. Company also disclose information through financial statements, discussion of management, analysis done by management. They are engaged in various activities such as press release, presentation, information on internet sites, conferences. India is an emerging market and rapidly growing and involved commercial banks which plays significant role in the development of economy by providing employment and funds needed for the development of country Beck et al. (2010). Previous studies indicated only few research regarding the disclosure of corporate affairs in banking industry (Khan, 2010). Financial crisis happened in the year of 2008 have made mandatory to the commercial bank to spend money on corporate social responsibility and reporting of all affairs to the concerned people (Vogler and Gisler, 2016). Banks of emerging market are now more responsible towards the stakeholders by providing money in ethically manner (Chiu, 2014). Social pressure on the banks increased importance of information reporting by the banks (Kılıc¸ et al., 2015). Past data of various research indicated numerous factors which influences the corporate disclosure and its impact over the loyalty development of customer (Hossain and Reaz, 2007). Some studies on corporate disclosure excluded banks from the study or not interested to study banks regarding the corporate disclosure (Cormier and Gordon, 2001; Monteiro and Aibar-Guzman, 2010). Corporate disclosure and financial performance of the banks are correlated to each other and a subject of research for the researchers in the recent years (Adrem, 1999; Cormier et al., 2005). All the stakeholders of the company or a bank always expect something such as a consumer expect good quality product or services at a cheaper rate to build his or her loyalty towards the bank; a supplier expect payment on time which help the bank to build goodwill; government expect honest tax payment by the bank and investment in the development of the country; employee want timely payment of salary and sufficient increment in the salary; society require development of education, hospital, water facility and other kind of infrastructure development; all these can be possible with the help of good financial performance which is linked with the disclosure of information regarding corporate affairs. Disclosure of information is mandatory according to rules made by regulatory bodies and it helps banks to build customer loyalty and reputation. Reputation and customer loyalty related with the stock return also. Stock prices are influenced by the financial performance information dependent on the disclosure of corporate affairs (Lang and Lundholm

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1993). Objective of this study is to investigate the impact of corporate disclosure on the reputation of banks and customer loyalty towards the banks.
Remainder of this study includes brief review of literature followed by methodology adopted for the examination, fourth part of this study indicate analysis and discussion and last part of the study conclude the study.

REVIEW OF LITERATURE

Aim of the paper is to investigate the impact of corporate disclosure on the reputation and customer loyalty of the banks. Corporate disclosure of all the information is relevant for the building a positive image in the mind of public. This enable the organization to attract the investors towards the banking firm and development of loyalty of customer. A brief of literature review is as follow: study of (Skærbæk and Tryggestad, 2010) concluded that survival and growth of firm depend on the financial disclosure of relevant information. While research of Cowen et al. (1987) supported that firm's information regarding the corporate affairs can be used by the mangers to attract the investors towards the firm and also can support the survival of firm. Researchers provide one more reason because of which company provide disclosure of information to the public that is conduct of operations (Branco and Rodrigues, 2008). Alniacik et al., (2011) supported that any positive and negative information about the company's affairs may influence stakeholders including employees, investors and customers. As discussed in previous part employees, investors and customer are the bones of the business. Research on effect of corporate disclosure in the industry of banks is very slow and late. Disclosure of information revealed that it is an activity of providing information to concerned group regarding all economic action (Gray et al., 1996, p. 3). Company or bank can communicate all the information through their annual reports and environmental reports on their official websites. Study of Karim et al., (2006) revealed that a large company or bank must provide more information about their economic activity and corporate affairs for their positive goodwill among the public and to generate customer loyalty. Research conducted by Monteiro and Aibar-Guzman, (2010) supported that large bank can provide extensive information to the concerned group in comparison to the small banks due to the availability of fund. Small firms do not have sufficient fund to spend money on corporate disclosure but large firm can spend more money as they have provision in their accounts for the same. Banks of a country play significant role in development of economy by providing funds because of developing stage of capital market and the banks are only the source of capital for business (Al Mamun and Kamardin (2014). There is various method to provide information to the concerned group and annual reports are one of them (Botosan 1997). Banks can be considered as trust for public in a long term. People are having respect and esteem for banks. Functioning of bank is not important only for the customer but also for the wellbeing of economy. Barako et al. (2006) supported that preparing annual reports is only the responsibility of management. On the other hand, auditor plays important role to disclose the information about the affairs of company. Auditor also act as a link between the investor and company.
Above discussion revealed that disclosure of corporate affairs helps in developing loyalty of customer and reputation of banks. Loyalty of customer and reputation can be judged with the help of stock price of the banks. Stock prices are the indicator of confidence on the economic activities of banks. Based on this, following hypothesis can be developed:
H0: corporate disclosure of financial information does not affect stock price.

H1: corporate disclosure of financial information affect stock price.

METHODOLOGY:

Effectiveness of results depend on the methodology adopted by the researcher. For the purpose of examining impact of corporate disclosure ten private and public banks have been selected. Stock prices and profitability have been taken for the study. Secondary data have been collected from the official websites. Unit root test has been applied to know the stationary in the data. Correlation test is applied to know the association between the data while regression analysis is used to examined the impact of profitability on the stock price.

ANALYSIS AND DISCUSSION

Below table 1 shows descriptive statistics of the data. Mean value express the average value of data related with SP and profits, Median value show the most frequency of data while probability describe the significance level at 5% (.05).

Table 1. Descriptive Statistics

Mean	190.0003	1154.066
Median	14.56000	669.6750
Max.	10024.16	9731.350
Min.	-18.38000	0.000000
St. D	1083.340	1402.243
Skwns.	7.366211	3.194872
Krtsos	61.73120	16.72771
J. B.	18331.99	1146.394

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Prb.	0.000000	0.000000
Sum	22800.04	138488.0

(Author's computation)

Table 2 used to describe the result of unit root test. This test is used to know the stationarity in data. Stationarity represent existence of unit root in data. Our result show that both the series of data do not have unit root and stationary in nature. The probability value is less than .05 (5%).

Table 2. Test of unit root

Method	Statistic	Prob.**
Profit	12.2474	0.0000
SP	12.0554	0.0000

(Author's computation)

Test of correlation is very important to know the association between the variables. High correlations indicates the positive association while low correlation indicates the low correlation between the variables. Our results show that both the variable has negative association. Change in one variable negatively influences other variable (table 3)

Table 3. Test of Correlation

	STOCK_PRICE	NPR
SP	1.000000	-0.101018
Profits	-0.101018	1.000000

(Author's computation)

Below table 4 show the test result of regression analysis. Regression analysis is used to check the impact of one variable on the other variable. Our results indicated significant impact of profitability over the stock prices of banks. As stock prices are influences by the profitability of banks. It indicates that customer loyalty and reputation denoted by stock prices. DWS value is .19 and significance value is less than .05 (5%), on the other hand, R square value is .60 (60%) while adjusted R square value is .61 (61%) which indicated that stock prices are influenced by 60% by the profitability. Following equation is used to test regression -

$$SP_{it} = \alpha + \beta_1 PR + €_{it} \qquad (1)$$

Where,

$€_{it}$ = error term follows normal distribution.

SP_{it} = Stock Price at the end of year

$\beta_2 PR$ = Profit at the end of year

Table 4. Test of regression

Variable	Coef.	Std. E.	t-Stts.	Prb.
Profits	-0.130754	0.118547	-1.102977	0.0223
C	1178.910	129.8586	9.078408	0.0000
R. sq.	0.60205	MDV		1154.066
Adju. R. sq.	0.61817	S.D. depdnt. Var.		1402.243
Lg likelihood	-1038.654	HQC		17.36311
F-stats.	1.216559	DW St.		0.191395
Prob. .0223				

(Author's computation)

CONCLUSION

It is very important to know the importance of corporate disclosure as it is mandatory according to the rules of regulatory bodies. Disclosure of financial information to the concern is very important. Concerned persons includes employees, customer and investors. All are very important for the reputation and customer loyalty. Stock price is one of the measure for the evaluation of reputation of banks and benchmark for customer loyalty. Our finding indicated that stock price is influenced by the profitability of the banks about which disclosure of information is very important. As and when stock prices rise it shows the firm's reputation and customer loyalty.

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