Ethical Reputation and Unethical Conduct of Banks: A Mixed Method Quasi-Experimental Study in an Emerging Market

Irfan Butt, Toronto Metropolitan University, Canada
Shoaib Ul-Haq, Newcastle University, UK
Mahmud A. Shareef, North South University, Bangladesh
Abdul Hannan Chowdhury, North South University, Bangladesh
Jashim Uddin Ahmed, North South University, Bangladesh

Abstract

Purpose – This study examines how ethical or unethical reputation of a bank influences customers in their selection of a bank while opening an account. Furthermore, we also consider whether a bank's ethical or unethical reputation can have a tradeoff with the functional features of that bank, as customers may wish to reward or be compensated for such behavior.

Design/methodology/approach – Qualitative research was followed by quantitative experiments to examine the impact of a bank's profile on customer behavior and perception.

Findings – The results indicate that positive ethical reputation does not have a significant impact on customers' choice, but unethical reputation affects selection. Results also showed that customers punished unethical reputation through their choices but did not reward ethical behavior.

Originality – This is one of the pioneer studies to consider, in a banking context, the impact of ethical/unethical reputation on customer perception and behavior, when selecting a bank.

Keywords Ethical reputation, Unethical reputation, Functional features, Bank selection, Customer behavior, Customer perception

Paper type Research paper

1. Introduction

The recent 2007-2009 financial crisis in the United States has illustrated the importance of corporate and business ethics and its potential to impact the consumer decision making process (Schoen, 2017). A more detailed analysis of the multiple causes of the financial crisis reveals numerous major ethical issues and a lack of ethical behavior within financial institutions, including "excessive leverage (heavy borrowing) throughout the financial system and the economy; … disgraceful banking practices in subprime and other mortgage lending; … perverse compensation systems in many financial institutions that created powerful incentives to go for broke" (Blinder, 2013; Schoen, 2017). The result was a breakdown in trust and a change in attitudes towards banks among American consumers; in June 2009, only 22% of Americans surveyed in a Gallup poll expressed confidence in banks (McCarthy, 2016). Thus, the perceived ethics and values of a financial institution can greatly affect its reputation and contribute to its long-term success or failure (Green, 1989).

Understanding which factors have generally been important during the selection of a bank is also an important topic that has been studied in detail by many researchers and academics with reference to the banking and financial services industry (Kaur, 2015; Sayaniand Miniaoui, 2013; Narteh and Owusu-Frimpong, 2011). Most of the existing literature revolves around the importance and impact of the functional features of a bank on its customers' perceptions, whereas the impact of a bank's ethical orientation has not yet been addressed. However, an increasing sense of social responsibility and an awareness of ethical issues among consumers have necessitated a need to study the significance of the ethical features of a banking institution.

1.1 Rationale for this study

The banking industry is a “people business” that provides highly intangible services and where there is great reliance on credence qualities. The information asymmetry is high in the banking industry (Dell'Ariccia, 2001), along with the perceived risk. As Green (1989) states, “[Money] has a mystical attraction — something in you wants to hang on to money.” A bank’s duty and responsibility extend to government, customers, shareholders, its staff, and the communities in which the bank operates (Green, 1989). Hence, the strategic management of the bank’s relationship with its customers — who trust banks to look after their money — becomes essential in the industry.

For this purpose, this current study aims to investigate the impact of ethical and unethical reputation on the customers of a bank, as evidenced by their selection of a bank. This study is engaged not only to highlight ethics as a factor of paramount importance in a bank’s reputation but also to analyze the interplay between ethical features of a bank with its functional features. The common concepts of this study are described in detail as follows.

1.2 Ethical reputation of a bank

The term *ethics* refers to a set of moral norms, principles or values that guide people’s behavior (Sherwin, 1983, as quoted in Brunk, K.H. 2010). According to these values, a person chooses what is right and what is wrong for him, and it is these decisions that help shape an individual’s life (Rawwas *et al*., 2005). Although the term *business ethics* has been conceptualized in many ways, one definition is “the study of those decisions of managers and corporate management which involve moral values. More specifically, the decisions involve taking actions which might differentially benefit or harm various stakeholders in the enterprise whether they be shareholders, employees, customers, suppliers, competitors, members of the community or the

broader society within which the business enterprise operates" (Gandz and Hayes, 1988). Business ethics involves areas such as fair competition, public relations, advertising, and corporate behavior in the home country and abroad (Chowdhury, 2011; Walton, 1977; Hosmer, 1987). Banking is a service industry dealing in intangible products that are less standardized (Berry, 1983) as compared to tangible consumer products; thus, switching between banks is not the same as switching between products. It is therefore acknowledged that consumer behavior towards consumer products cannot be completely compared with behavior towards banking or financial services; however, basic consumer psychology and behavior can be applied to consumers of both tangible goods and intangible services.

In this study, banks with a positive ethical reputation — ethical banks — were modeled along The Co-operative Bank from the UK, and indicate banks that selectively invest only in those projects that added overall value to society. For instance, such a bank would invest in the opening of a school, or in the creation of a factory in a rural area with proper mechanisms for waste disposal; investments that have not just economic but also social and environmental benefits. The Co-operative Bank was an ideal bank to be used as a model as it lays a strong emphasis on ethicality along with providing its customers the standard services offered by banks in general. It came up with its ethical policy in consultation with 30,000 customers, most of whom supported its ethical stance. Its policy statement concerned various issues including human rights, arms trade, animal welfare, etc. ("The co-operative bank"). These ethical policies are put into practice as the Co-operative Bank does not provide banking services to any business, organization, or government that "fails to uphold basic human rights within its sphere of influence," "manufactures or transfers indiscriminate weapons," or whose core activity contributes to global climate change ("The co-operative bank"). Ethical banks also deliver a high level of information transparency and more

extensive information about the placement of their assets and where money has been lent to their depositors (Cowton, 2014; Cowton and Thompson, 1999). Thus, the disclosure of information to consumers is an important issue in the financial services industry. Other examples of ethical banks include Charity Bank (UK), Cultura Bank (Norway), Triodos Bank (Netherlands), GLS Bank (Germany), La Nef (France) (Barigozzi and Tedeschi, 2019).

Solaiman *et al*. (2007) include honesty, integrity, social responsibility, accountability and compliance to promise as characteristics for a reputable bank. Ethical behavior is deemed important for banks and financial institutions because their functioning and performance depend upon their reputation (Brickley *et al*., 2003; Lin *et al*., 2017). The ethical behavior of banks can also serve as a competitive advantage in banking and results in high customer satisfaction (Chowdhury, 2011). Thus, any wrong decision on a bank's part could lead to financial loss, as well as reputational damage which could result in the loss of customers. In contrast, in a crisis situation, Hur and Kim (2020) have demonstrated that customer-company identification (CCI; the extent to which customers believe that they share the same defining attributes of a company) strengthens the positive relationship between perceived corporate hypocrisy and customer mistreatment behaviors, while brand equity weakens this relationship. In other words, customers with high levels of CCI are more likely to exhibit more aggressive behaviors toward the company or its employees in response to perceived corporate hypocrisy to help alleviate their sense of betrayal and anger and restore a sense of equity.

1.3 Unethical reputation of a bank

At the other end of the spectrum are banks with a negative ethical reputation — unethical banks — which make investments that detrimental to society. The unethical reputation of a bank also refers to a bank's poor public relations, such as its unwillingness to issue a formal statement

about a client’s publicly criticized unethical activities or its refusal to recall loans issued to companies known to be involved in illegal side businesses. An example of such a bank would be the formerly existing Midland Bank, which had a tarnished reputation because of its active involvement in arms trading (*“Ethical policies in banking”*).

Media reports of financial scandals in the banking industry show that ethical problems can significantly tarnish a bank’s brand image and reputation. For example, the Wells Fargo account fraud scandal in 2013 consisted of allegations that the bank’s employees engaged in aggressive cross-selling tactics, including opening up new, unauthorized accounts and issuing debit or credit cards without customers’ knowledge, sometimes by forging their signatures. The result was $619 million in operating losses, increased legal expenses, a $1 billion fine from regulators, and expensive television, radio, and online ad campaigns and promotions to rebuild trust among consumers (Borak and Bronner-Wiener, 2018; Egan, 2018). Unethical issues may require banks to do more than pay financial penalties or repair a negative brand image and reputation. In a study on unethical sales practices in retail banking, Tosun (2020) showed that banks must differentiate their service recovery approach depending on the type of problem. For example, problems involving fee deception were strongly associated with a desire for the bank to fix the problem, while problems about disrespect were associated with a request for corrective actions for the salespeople and customer desire to express their complaints.

A bank with neither a positive nor a negative ethical reputation would simply be neutral, with customers distinguishing it only based on its functional features.

1.4 Functional features of a bank

A literature review was conducted on a bank's functional features to determine what dominant factors influence customers' decisions to select a bank. The functional features

considered essential to customers were used to inform the design of this study. Banks are primarily distinguishable from each other based on the functional features that they offer (Safakli, 2007). Factors such as convenience, services, employee attitudes, service charges, rates of return, and recommendation by friends and family have been identified as repeating constantly throughout the literature (Blankson *et al*., 2007; Jahiruddin and Haque, 2009; Jinkook and Marlowe, 2003). These factors are related to how a bank functions during the ordinary course of its business, as they reflect directly upon its performance and position in the industry.

Throughout the literature on bank selection, the significance of even the most repeated factors has changed over time, although most have remained consistent geographically, ethnographically and demographically. According to Jahiruddin and Haque (2009), convenience and reputation both varied in significance, geographically and ethnographically. In North America both were ranked as the most important factors; in Europe, only reputation was fairly important with convenience ranking as the lowest. In the Middle and the Far East, convenience was given a higher rank than reputation.

Jinkook and Marlowe (2003) found that recommendation was important for US customers. This was only true for higher-income groups while for others convenience remained more important. Bank's reputation along with recommendations from family and friends were among the most important bank selection criteria in North Cyprus (Safakli, 2007) as well as in Finland, as shown by Holstius and Kaynak (1995). Zineldin (1996) found that the most important factor for Swedish customers was service quality. A study in Bangladesh also concluded that efficiency and speed of service were the most important factors considered by customers.

Riggall (1979) ranks convenience as a very significant factor. It has no set definition but varies from one customer's perception to another, according to the different segments they belong

to (Jinkook and Marlowe, 2003). Most groups of people associate location, number of branches, security, and service quality to convenience; however, Blankson *et al*. (2007) defined it as the location of a bank for a liberalized developed economy.

The reputation of a bank has been marked as an important factor as well, and includes image, institutional stability, continuity and corporate soundness as its measures (Kennigton *et al*., 1996). In cultures where social ties and relations are highly valued, a bank's image is tied to social influences and family advice (Tan and Chua, 1986). Due to the recent financial crisis, customers have also started to consider looking upon a bank's stability and its assets while making a decision, which is included in their definition of reputation.

According to Jabnoun and Al-Tamimi (2003), the quality of service was an important criterion for the selection of a bank and was measured using the SERVQUAL model which developed five parameters for a bank customer's service quality. These five parameters included: Tangibility, Reliability, Responsiveness, Assurance, and Empathy. Analysis of literature on this identified efficiency of service, reliability of service, responsiveness of contact person, service delivery, and speed of response as the measures defining service quality (Rosenblatt *et al*., 1988; Shareef *et al*., 2014). Furthermore, customer satisfaction depends on the types and quantity of services offered by their bank; i.e. the more services a bank offered, the better. Services include ATM facilities, online and mobile banking, mortgage facilities, and so on.

For these reasons, we concluded that the bank's profile, rate of return, range of services offered, and response time are the dominant factors that influence a customer's decision. The factors that were then used to vary amongst the different bank packages used in this research were the bank profile, which incorporates the factor of reputation; the rate of return, which is a monetary

consideration; and the services offered, which were differentiated on both quality and quantity and contain elements of convenience (response).

1.5 Objective of this study

This current study aims to investigate the interplay between the ethical features of a bank with the functional features of a bank, as evidenced by customers' preferences while selecting a bank. Generally, banks are differentiated along the basis of factors such as convenience, services offered, service quality, reputation, and monetary considerations such as the interest rate received on saving accounts, or the finance charges to be paid on loans. Such factors are related to how the bank functions during the ordinary course of its business, as they reflect directly upon its performance and position in the industry. On the other hand, ethical features can be viewed independently of a bank's operations, as they have no reflection on the bank's performance as a financial institution.

Based on the results of the literature review as well as the qualitative research that was carried out, the hypotheses that were constructed aimed to check the willingness (unwillingness) of bank customers to open an account in a bank that they perceived to be ethical (unethical). We posit that the ethical reputation of a bank does not affect customers' behavior regarding bank selection, and thus they do not reward such a bank. However, a bank with unethical reputation is perceived differently, so customers will consequently punish it for this undesirable behavior. The formal hypotheses are detailed as follows:

H1: Customers do not differentiate between a bank with an ethical reputation or a bank with a neutral reputation.

H2: Customers do differentiate between a bank with a neutral reputation as opposed to a bank with an unethical reputation.

H3: Customers tend to punish unethical behavior but do not reward ethical behavior.

H4: Positive functional features fail to compensate for a bank's unethical reputation.

2. Research Methodology

The present study was conducted using students from a premier business university in Pakistan, an emerging market. The students were chosen as the target subjects since the experiment necessitated familiarity with complex instruments. Furthermore, the assumption that a majority of these students would soon be entering the job market and hence require personal bank accounts meant that as guaranteed future customers of banks, their input would be feasible and highly relevant for this study's purposes. Subjects were approached individually and presented with either one of two different experiments, which they completed there and then so a moderator was at hand to address any queries that surfaced. The experiment was in the form of a self-paced questionnaire that took about 8-10 minutes to complete.

2.1 Experiment 1: Ethical or Unethical Bank Reputation vs. Neutral Bank Reputation

Experiment 1 was designed to test whether people differentiate between banks with an ethical or an unethical reputation as compared to a neutral bank. The experiment was further subdivided into three experimental conditions, namely ethical, control and unethical conditions. Each experimental condition involved three banks, A, B and C, while the stimuli for this task occurred through the profiles that were developed for each bank that commented on their history and reputation. The profiles of banks A and C were constant throughout all the experimental conditions, so the differentiation across conditions occurred through the manipulation of Bank B's profile.

In the control condition, there was no significant difference between the behavior of Bank B (the target bank) as compared to Banks A and C. In the ethical condition, Bank B was reported

as being reputed for scrutinizing its investments and had also recently cancelled its loan to a company that was discovered to be involved in questionable side ventures. In the unethical condition, Bank B was said to have been publicly criticized for providing funding to companies known to be involved in illegal side businesses, with the Bank refusing to recall the loans or even issue a formal statement regarding the matter.

Each bank offered two student packages that were differentiated on the basis of the rate of return being offered on the deposit, the services offered as well as the quality of service, as reflected by the time taken to respond to complaints and issues. One of the packages offered a higher rate of return that was offset by the provision of fewer services and a longer response time, while the other had a relatively lower rate of return that was compensated for by the provision of a greater number of services and a shorter response time. Thus, each experimental condition had a total of 6 bank packages, with three of them offering high interest rates and low services, while the other three provided higher services but a lower interest rate.

2.1.1 Dependent Measures

Subjects were asked to consider which of the 6 bank packages they would choose in case they were to open a savings account in one of the three banks. Their preferences were indicated by a ranking system, in which each package was to be assigned a number from 1 to 6, with 1 being most preferred and 6 being least preferred. Rank 1 also indicated the bank package, and consequently the bank, in which subjects would have chosen to open their accounts. To shed light upon the reasons for this selection, subjects had to pinpoint the factor which most influenced their decision-making process, be it the interest rate, services or the overall package.

A total of 186 responses were obtained. 65 were for the control condition, 60 were for the unethical condition and 61 responses were for the ethical condition.

2.2 Experiment 2: Customer Compensation for Unethical Bank Reputation vs. Reward for Ethical Bank Reputation

Experiment 2 was designed with the purpose to determine whether a bank's reputation (ethical or unethical) affects customers' expectations, perceptions and attitudes. The experiment followed a similar pattern to that of Experiment 1, with 167 graduate and undergraduate students being presented with information about the three banks, A, B and C. The three varying profiles of bank B i.e. neutral, unethical and ethical were presented to 59, 52 and 56 students, respectively. As in Experiment 1, the profiles for banks A and C remained constant (neutral) across the three conditions. In all the experimental conditions, each bank offered two packages that differed as per the services they offered, in addition to the variability in the bank profiles.

2.2.1 Dependent Measures

The subjects were asked to assign a rate of return between 7% - 12 % that they thought was appropriate considering the profile and the services being offered in each package. The focus of the study is to determine if customers demanded compensation for unethical reputation, and whether they rewarded ethical behavior by compromising on functional features. For the purpose of the experiment, demanding a higher rate of return was considered to be a demand for compensation of an unethical bank profile, while a lower rate was considered a compromise on functional features in lieu of an ethical bank profile. The experiment details are provided in the appendix.

3. Findings

3.1 Experiment 1: Ethical or Unethical Bank Reputation vs. Neutral Bank Reputation

The data gathered through Experiment 1 could be described as ordinal, but it was non-parametric and failed the normality test. Thus, non-parametric tests were used to obtain valid results.

To analyze the ranks assigned to the packages 1, 2 5 & 6, Mann Whitney U tests were conducted for neutral, unethical and ethical conditions (although the profiles of the offering banks of these packages remained neutral; Table I).

For packages 1 & 2, (offered by the same bank) there was a significant difference in preference between the neutral and unethical conditions ($U = 4430$, $p = 0.000$), while no significant difference was observed between the neutral and ethical conditions ($U = 7831$, $p = 0.861$). For packages 5 & 6, again there was a significant difference between the neutral and unethical conditions ($U = 6583.5$, $p = 0.03$), but no significant difference in preferences was observed between neutral and ethical conditions ($U = 7380$, $p = 0.532$).

Insert Table I. Results of Mann-Whitney U Test for packages 1, 2, 5 & 6

These results indicate that even though the profiles of these particular packages remained unchanged, a change in the profile of other packages (3 & 4) in the same group resulted in a change in preference when the profile of those packages was unethical. But no change was observed, compared to the neutral condition when the packages 3 & 4 had an ethical profile. This behavior was predicted by H1 and H2 that customers do not tend to differentiate between ethical and neutral but unethical behavior affects their choice.

To check for the variability between rankings for Bank B packages, 3 & 4, (since these were the manipulated variables) Friedman's Test was run with a Wilcoxon Signed-Rank test for

post-hoc analysis at a 5% level of significance (Table II). Package 3 (Lambda) had higher interest rate than 4 (Pi) but offered fewer services. Both these packages were tested separately for variability in the ranking.

There was a statistically significant change in the preference of package 3 as the offering bank's profile changes, χ^2 (2) = 29.281, p = 0.000. Post-hoc analysis was conducted using the Wilcoxon Signed-Rank test using a Bonferroni correction applied a resulting significance of p< 0.017. Median preference rank for package 3 in neutral, unethical and ethical conditions were 2 (1 to 4), 2 (1 to 4) and 5 (2 to 5), respectively. There was no statistically significant difference between the ranking preferences for neutral and ethical conditions (Z = −0.636, p = 0.525). However, there was a significant difference between the preferences of package 3 between the neutral and unethical conditions (Z= −3.504, p= 0.000) as well as for unethical and ethical conditions (Z = -4.082, p = 0.000)

For package 4, a change in the bank's profile significantly affected the preference for the package, χ^2 (2) = 23.910, p = 0.000. Wilcoxon Signed-Ranked test, with an adjusted Bonferroni significance (p < 0.017), showed that median ranks for package 4 in neutral, unethical and ethical conditions were 3 (1 to 5), 5 (4 to 6) and 3 (1 to 5), respectively. A significant difference in ranks between unethical and neutral conditions (Z = −0.4.951, p = 0.000) as well as between unethical and ethical conditions (Z= −3.890, p= 0.000), while no significant difference between neutral and ethical conditions was observed (Z = −1.042, p = 0.297).

Insert Table II. Results for Wilcoxon Signed-Rank test packages 3 & 4 showing differences in ranking preferences across changing profiles of offering bank

As predicted by H1, subjects did not differentiate their preferences between ethical and neutral profiles of the offering bank; hence, they did not differentiate between ethical and neutral

profiles. H2 predicted a significant impact of unethical profile, which is indicated by the results presented above.

For this experiment, packages 1, 3, & 5 were offering the same services, but the rate of return offered by package 1 was 9%, while that offered by 3 & 5 was 10%. Across conditions, only the profile of the bank offering package 3 changed. Wilcoxon Signed Test was used to analyze the effect of profile and ethicality of a bank.

The Wilcoxon Signed-Rank test show that preference ranks across control ($Z = -5.500$, $p = 0.000$), ethical ($Z = -4.852$, $p = 0.000$) and unethical ($Z = -2.818$, $p = 0.005$) conditions were significantly different between packages 1 & 3 (Table III). This can be attributed to similar services but a lower rate of return for package 1. Indeed, the median rank for 1 is lower than that for package 3 in the neutral and ethical (Table IV). However, package 3 is ranked lower than 1 because of its unethical profile. Similarly for packages 1 and 5, there is a significant difference between control ($Z = -1.472$, $p = 0.000$) and ethical ($Z = -4.852$, $p = 0.000$) due to difference in rates being offered, but in the unethical condition this difference is insignificant because the unethical profile of package 3, now ranked lower (median = 5) than the corresponding package 5 (median = 2). Therefore, subjects preferred the package with higher returns (3 & 5) than the package with lower returns. However, unethical bank profile for package 3 leads to a change in preference as they now prefer a package with relatively lower rate over a package with unethical profile. Similar results with same tests were observed for packages 2, 4 & 6.

This behavior was predicted by H4, where the impact of positive functional features is readily offset by an unethical reputation.

Insert Table III. Wilcoxon Signed-Rank test showing the impact of ethicality vs. functional features

Insert Table IV. Median Rank for the six packages across conditions

3.2 Experiment 2: Customer Compensation for Unethical Bank Reputation vs. Reward for Ethical Bank Reputation

To compare the rates of return assigned to packages 3 and 4 across the three conditions, the mean returns assigned to the rest of the packages were compared across conditions (the profiles of the banks offering packages 1, 2, 5 and 6 remained neutral for the three groups of students, while those of packages 3 and 4 varied; Table V). 5% level of significance was used for all statistical tests.

Table V. Summary of Experiment 2

3.2.1 Package 1:

A one-way ANOVA was used to test for differences in the rates of return assigned to package 1 (whose profile remained constant while the corresponding profiles for packages 3 and 4 changed; Table VI). The 59 subjects for whom all the bank profiles were neutral required an average rate of return of 9.63% (SD = 1.618), the 52 respondents who received the ethical bank profile for package 3 & 4 required an average return of 9.64% (SD = 1.327), and the respondents with an unethical profile for package 3 & 4 demanded an average return of 9.17% (SD = 1.324). The rates of returns assigned did not differ significantly across the three conditions, $F\ (2, 164) = 1.853$, $p = 0.160$

3.2.2 Package 2:

To test for differences in the rates of return assigned to package 2 (constant profile as the profiles for packages 3 and 4 changed), one-way ANOVA was used). The 59 subjects for whom all the bank profiles were neutral required an average rate of return of 9.15% (SD = 1.400), the 52 respondents for whom the bank profile for package 3 & 4 was ethical, required an average return

of 9.05% (SD = 1.299) and the respondents with an unethical profile for package 3 & 4 demanded an average return of 8.9% (SD = 1.459). The rates of returns, therefore, did not differ significantly across conditions, F (2, 164) = 0.448, p = 0.640.

3.2.3 Package 5:

A one-way ANOVA was used to test for differences in the rates of returns assigned to package 5 (whose profile remained constant while the corresponding profiles for packages 3 and 4 changed). The 59 subjects for whom all the bank profiles were neutral required an average rate of return of 9.61% (SD = 1.5776), the 52 respondents for whom the bank profile for package 3 & 4 was ethical, required an average return of 9.61% (SD = 1.371), and the respondents with an unethical profile for package 3 & 4 demanded an average return of 9.04% (SD = 1.608). The rates of returns assigned did not differ significantly across the three conditions, F (2, 164) = 2.517, p = 0.084.

3.2.4 Package 6:

To test for differences in the rates of return assigned to package 6 (constant profile as the profiles for packages 3 and 4 changed), one-way ANOVA was used. The 59 subjects for whom all the bank profiles were neutral required an average rate of return of 9.39% (SD = 1.398), the 52 respondents for whom the bank profile for package 3 & 4 was ethical, required an average return of 8.98% (SD = 1.507), and the respondents with an unethical profile for package 3 & 4 demanded an average return of 8.79% (SD = 1.517). The rates of returns did not differ significantly across conditions, F (2, 164) = 2.484, p = 0.082.

Insert Table VI. Results of ANOVA for packages 1, 2, 5 & 6

It is evident that for packages whose corresponding bank profiles remained constant (1, 2, 5 and 6), no statistically significant difference was observed in the rates of returns assigned,

although the bank profiles of two packages (3 and 4) had been changed. The above results set the stage for the analysis of rates assigned to the two packages whose corresponding bank profiles actually changed.

Analysis of variance for rates assigned to package 3, showed that the effect of bank's profile was significant F (2, 164) = 6.843, p = 0.001. Post-Hoc Bonferroni analysis revealed that the average rates of return assigned were significantly higher in the unethical condition (M = 10.337, SD = 1.6352), than in both the neutral condition (M = 9.407, SD = 1.5213), p = 0.003 and in the ethical condition (M = 9.491, SD = 1.1341), p = 0.008 (Table VII). The average rates of return assigned to the neutral condition (M = 9.407, SD = 1.5213) were not significantly different from those in the ethical condition (M = 9.491, SD = 1.1341), p = 1.000.

Insert Table VII. Bonferroni Comparison of Rates of Return of Package 3 (F (2,164) = 6.843, p = 0.001)

Similarly, for package 4, analysis of variance showed that the effect of change in bank's profile was significant F(2, 164)= 7.237, p = 0.001. Post-hoc Bonferroni results show similar results as for package 3. The average rate of returns for the unethical condition (M = 9.798, SD = 1.4220) were significantly higher than those for the neutral condition (M = 9.068, SD = 1.5326), p = 0.038 as well as than those for the ethical condition (M = 8.696, SD = 1.6087), p = 0.001 (Table 8). There was no statistically significant difference between the returns of the neutral (M = 9.068, SD = 1.5326) and ethical conditions (M = 8.696, SD = 1.6087) p = 0.581.

Insert Table VIII. Bonferroni Comparison of Rates of return of Package 4 (F (2,164) =7.237, p = 0.001)

Hence, as predicted by $H3$ the ethical profile of a bank did not have a significant effect on customer perceptions, as when subjects could not differentiate between the neutral and ethical

profiles, they were therefore unable to reward this ethical behavior. This is confirmed by the insignificant post-hoc results between the ethical and neutral profiles for packages 3 and 4, as discussed above. Moreover, the significantly higher rates of return demanded by customers from an unethical bank was also predicted by H3 and is confirmed by the significant post-hoc results discussed above.

4. Theoretical and Managerial Implications

The results of this study have several theoretical and managerial implications. This study showed that consumers do not reward banks' ethical performance. Rather, consumers punish unethical banking practices and feel deterred from receiving their services. Functional orientation is presumably predicted and expected (Jarah and Emeagwali, 2017). Therefore, if the service provided by the vendors matches with customer expectations, customers conventionally do not show any differentiated behavior compared to their regular behavioral patterns. Another potential reason for this observation is that consumers may inherently expect their banks to act ethically and not expect any unethical functions or irregularities from the financial institutions. This study highlights the responsibility that the managers of financial institutions have in reviewing clients to whom they issue loans. They also have a moral duty to respond quickly and transparently to the public and their customers on any practices that may be perceived as being illegal or unethical. In the short run, a bank might gain financially by adopting any unethical or questionable practice; however, they will lose customers and their reputations in the long run.

This study did not set out to gauge the extent of the impact of ethical reputation. However, the results from this study can be used to further explore the extent of the impact of functional features and ethical reputation as a direction for practitioners. Another recommendation for policymakers of financial institutions would be to gauge the extent to which unethical reputation

can be overcome using positive functional features if that is at all possible. Moreover, the study can be used as a basis to further explore the extent to which activities creating positive ethical reputation can lead to customers differentiating between ethical and neutral reputation.

5. Conclusion

It is widely expected that ethical/unethical behavior of financial institutions may affect customers' perception and attitude toward those institutions. Based on that attitude, customers' behavioral intention might be changed. Consequently, customers adoption criteria ultimately are related to overall performance of the financial organizations. Most of the scholarly studies working on customers' behavioral intentions to accept financial institutions are engaged to understand the importance and impact of the functional features of a bank on its customers' perceptions, whereas the impact of a bank's ethical orientation in selection process has not yet been addressed. However, in this present era, financial institutions are involved in many scattered types of unethical issues. Learning the relation of consumers' behavioral intention with ethical or unethical reputation of banking sector can potentially contribute in shaping the functions and performance of those financial institutions. Therefore, this present study has significant importance to contribute to the existing literature.

This study has addressed and analyzed how ethical or unethical reputation of a bank influences consumers in selecting a bank while performing their financial operations like opening an account. The study has also investigated whether a bank's ethical or unethical reputation can have a tradeoff with the functional features of that bank, as customers may wish to reward or be compensated for such behaviors. Qualitative research was followed by two quantitative experiments to examine the impact of a bank's profile on customer behavior and perception. In this regard, two planned experiments were designed among the students of an institution in

Pakistan. Extensive statistical analysis was conducted to reveal consumers' behaviors in selecting a bank in the presence of an ethical or unethical reputation. The results indicate that positive ethical reputation does not have a significant impact on customers' choices, but unethical reputation affects their selection process. Results also showed that customers punished unethical reputation through their choices but did not reward ethical behavior. In the unethical condition, banks were said to have been publicly criticized for providing funding to companies known to be involved in illegal side businesses, with the bank refusing to recall the loans or even issue a formal statement regarding the matter. This is one of the pioneer studies to consider, in a banking context, the impact of ethical/unethical reputation on customer perceptions and behaviors, when selecting a bank. It also examines how customers change their preferences in response to the profile of a bank and the functional features offered by the bank.

This finding has prolific contribution for existing knowledge related to unethical functions of any financial institutions. Policymakers of financial institutions can get deep insights about consumers' negative behavioral intentions if they are involved in unethical practice.

5.1 Limitations and Guidelines for Future Research

This study showed that customers do not differentiate between a bank with an ethical reputation and a bank with a neutral reputation. This finding conflicts with current literature that suggests ethical factors for banks create increased customer satisfaction and serves as a competitive advantage in banking (Chowdhury, 2011) and warrants further study. This research was conducted in a developing economy. Carrying out the same research in a developed economy can help determine if there is still an indifference between ethical and neutral financial institutions and whether this can be generalized to consumers from different economies. It may be that consumers from developed economies prioritize ethical functions of financial institutions than

those from developing economies, as most ethical banks that focus on sustainable banking and corporate social responsibility are located in developed countries.

Similarly, this study was conducted with graduate and undergraduate students, which may not represent all consumers. The same research can be conducted among general consumers having different demographic characteristics so that conclusions can be generalized.

This study also looked at the impact of a financial institution's profile on the customer's bank choice and how customers punished banks with unethical reputations. It did not examine how current customers respond to learning about their financial institution's unethical practices; for example, existing customers may switch banks or choose to leave their current bank upon learning about their bank's unethical practices in the media. In reality, unethical banking is a complex, multi-faceted issue that affects more than just a customer's bank selection. Unethical banking scandals can cause reputational damage, loss of customer trust, legal issues, fines from regulators, and large advertising expenses in trying to win back consumers' trust and business.

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