Corporate reputation: concept and measurement

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Introduction

Providers of professional services “have long been concerned about developing and maintaining a high quality reputation” (Hite and Bellizzi, 1986). Such concern also extends to other firms where it has been argued that a positive corporate reputation has a number of beneficial consequences. It has been linked to intention to purchase a service (Yoon et al., 1993); the attitude of buyers to salespersons and products in the organization buying situation (Brown, 1995); perceived product quality and to deterring competitor entry when a tough stance is adopted (Weigelt and Camerer, 1988); contributing to performance differences between firms (Rao, 1994); attracting investors, lower cost of capital and enhancing the competitive ability of firms (Fombrun and Shanley, 1990); and, to enabling strong organization identification by employees and “inter-organizational cooperation or citizenship behavior” (Dutton et al., 1994).

A firm with a good overall reputation owns a valuable asset. Yet unlike other assets, reputation cannot easily be traded on the open market as it represents a “higher order” rather than a “mobile” resource (Hunt and Morgan, 1995). The topic of accounting for corporate reputation is beginning to receive increased attention (e.g. Belkaoui and Pavlik, 1992). Firms, however, are realizing that the dissemination of favorable accounting information is not sufficient. Reputation cannot be judged on performance alone. For a number of years Fortune has published an annual corporate reputation index. The index is based on research carried out, in the USA, among some 10,000 senior executives who are asked to rate the ten largest companies in their industry. This index attempts to broaden the reputation variables considered by respondents beyond financial performance. Each firm is assessed on eight attributes: quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop and keep talented people; responsibility to the community and the environment and wise use of corporate assets. Fryxell and Wang (1994) rightly criticize the Fortune index and point out that four of the eight variables in the index refer to performance while constructs like innovation; corporate social responsibility; and management quality; are being measured by single items. Using confirmatory factor analysis, they are able to show that: “All but one of the items (i.e. community and environment responsibility) appear to be directly influenced by the raters’ perception of the financial potential of the firm”. It therefore appears that the Fortune corporate reputation index measures little beyond performance. The main purpose of this research is to determine the attributes that play a role in the formation of a corporate reputation. To do this the reputation construct literature is reviewed and four focus groups are conducted. These and the results of a survey are used to enable the development of an instrument with the necessary psychometric properties to measure corporate reputation from a consumer perspective. Implications are drawn for corporate managers and the possible role of a halo effect is discussed.
The nature of corporate reputation

Corporate reputation is sometimes seen as synonymous with corporate image (Dowling, 1993); as representing outside members’ perception of corporate image (Dutton et al., 1994); and as only one dimension of corporate image (Barich and Kotler, 1991; Mason, 1993). Part of the confusion results from the various uses of the term “corporate image” by both practitioners and academics to the extent that even “corporate image and corporate identity are also used interchangeably or imprecisely” (Abratt, 1989). Corporate reputation has been variously defined. Spence (1974) asserts that it is the outcome of a competitive process in which firms signal their key characteristics to constituents to maximize social status. This appears to imply clear status goals and complete control over signals emitted by a dynamic firm. Weigelt and Camerer (1988) provide a rather acquiescent definition contending that corporate reputation is a set of economic and noneconomic attributes ascribed to a firm, inferred from the firm’s past actions. This latter aspect is also stressed by Yoon et al. (1993) who hold that “a company’s reputation reflects the history of its past actions.” Earlier, Levitt (1965) also defined company reputation in terms of a number of attributes which he sought to identify, maintaining that a company’s reputation from a buyer’s perception consists of the extent to which the firm is well-known, good or bad, reliable, trustworthy, reputable and believable. Brown (1995) makes use of these attributes to operationalize the construct.

Just as firms have a multitude of publics they also have an array of reputations as each public often considers a different set of attributes. Moreover, even if the same attribute is considered by different publics it may be given a different weighting. For example, in looking at corporate reputation, managers and stock brokers are likely to place most emphasis on financial performance. This is so because western firms, in particular, are under considerable pressure to show positive short-term profit performance (Webster, 1988). On the other hand, in the case of the consumer public, a consistent high quality product offering by a firm is the attribute given most importance (Yoon et al., 1993). For the consumer public, the firm’s performance may not be an attribute considered when assigning a reputation to the firm, or it may be an attribute receiving low import.

The reputation held about a firm by each public is formed on the basis of direct and indirect experiences and information received (Fombrun and Shanley, 1990; Sullivan, 1990; Yoon et al., 1993). Certain product categories, including service offerings, cannot be assessed prior to consumption hence they are classified as “experience” as against “search” products (Nelson, 1974). In reality, experience is itself a source of information. Reputations can be formed even when the experience by a public is not direct as long as this is passed on either directly through word-of-mouth, or indirectly via the media or other publics. Restaurants rely heavily for their trade on their reputation as transmitted by word-of-mouth. Firms have varying degrees of control over the informational cues that they transmit. Fombrun and Shanley (1990) provide details of four broad informational cue types, namely: market; accounting; institutional; and strategy. Rao (1994) adds legitimation, often through some form of endorsement, as a further means of generating a favorable reputation.

With experience goods consumers cannot observe quality directly and they rely on branding which acts as a surrogate for quality (Milgrom and Roberts, 1986; Wernerfelt, 1988). Reputation can be seen to have two components: an overall impression component and an object-specific component.
The overall impression component can exist at a corporate level when a firm uses its corporate name as a brand, or it can exist at a lower level where the firm in addition to, or in substitution of, the corporate name makes use of one or more brand names. In looking at brands, Sullivan (1990) holds that the brand (overall impression) component is shared by all products with the same brand name and represents those aspects of quality that the consumer cannot apportion to individual products. The product-specific component, independent of the overall impression or brand component, represents those attributes that can be identified as belonging to one product or another. Brand extensions take advantage of the general impression component in reputation. Umbrella branding which is the practice of labeling more than one product with a single name, is commonly used by multiproduct companies in a variety of markets. The original reputation is extended to new products mitigating uncertainties about their performance and thus reducing the cost of their introduction (Karger, 1981; Montgomery, 1975; Robertson and Gatignon, 1986; Tauber, 1988). Such activities represent some return on the firm’s investment over time in “non-salvageable goodwill” (Weigelt and Camerer, 1988). Umbrella branding also plays a role at the corporate level. This is particularly so with service firms for whom “the company name is the brand name” (Berry et al., 1988). The intangible nature of service products does not favor individual product branding and renders corporate umbrella branding particularly important for service firms.

The research

It was decided at an early stage to focus on corporate reputation from the consumer public perspective. The research involved two phases. Exploratory qualitative research in terms of four focus groups was initiated as the review of literature was found to be rather limited in its ability to identify the attributes that determine corporate reputation. This stage sought to develop an understanding of what reputation meant for consumers and to generate a set of items. In the second stage the items generated are subject to a survey among consumers with a view to developing an instrument for measuring corporate reputation along procedures recommended by a number of marketing scholars (Churchill, 1979; Saxe and Weitz, 1982).

Focus groups

Four focus groups were conducted with the discussion in each group concentrating on the reputation of four well-established local firms that are market leaders in the beverage industry. Participants in the focus groups were invited after having been chosen from a sample drawn at random from a national electoral register. There were four focus groups, each consisted of nine persons, and were grouped together on the basis of age and gender. Two of the four groups included only males while the other two groups consisted only of females. Consistency in age was also maintained in the groups and each of the two male and female groups were divided into those that were older than 30 years of age and those between 18 and 30. This sought to achieve homogeneity so as to ensure maximum participation (Parasuraman et al., 1985). There were some noticeable differences between male and female participants. Females over 30 tended to have a more down-to-earth attitude and appeared to judge company reputation through their own experience of the products. Females also tended to place more value on factors such as variety of the product range than attributes such as company tradition and years in operation. Table I indicates the key elements that resulted from an analysis of the transcripts of the four focus groups.
The results of the focus groups together with the literature reviewed, provided a basis for developing a total of 34 items that could be included in an instrument aimed at measuring the reputation of a firm by the consumer public. The questionnaire included both positively and negatively stated items to control for the possibility of acquiescence (Cronbach, 1946). The item statements were given to an expert panel that consisted of the 12 managers and senior managers in the marketing department of a leading beverage company. These were asked to rank each item into one of three categories namely: clearly representative; somewhat representative; and not representative. This exercise sought to understand how well the items used captured the reputation dimensions involved. It also helped to eliminate items that were thought of as not being representative of the construct. Any item that was identified as not being representative by any of the respondents was eliminated. This brought the questionnaire down to 32 items.

The survey
In order to purify the scale the 32-item questionnaire was administered to a quota sample of 120 consumers of a leading beverage firm. Participants were drawn from different geographical localities. The quota was based on two age variables and gender. Each respondent was asked to indicate their degree of agreement or disagreement on a five-point Likert scale that ranged from “I disagree strongly” (=1) to “I agree strongly” (=5). Following the collection of data, negatively worded items were reverse scored and descriptive statistics for all items in the scale were computed. Items that exhibited corrected item-total correlations below 0.5 were not contributing significantly to the measurement of the reputation construct and were therefore eliminated, leaving a 14-item questionnaire. Item-total statistics were again computed and all corrected item-total correlations were now greater than 0.5 with the squared multiple correlations greater than 0.35 as suggested by McKelvey (1967). The recommended procedures for the development of sound psychometric measures in marketing have been followed (Churchill, 1979; Saxe and Weitz, 1982). Such procedures seek to develop a parsimonious measure and have been followed in a number of studies (cf. Kohli et al., 1993; Parasuraman et al., 1988). Thus, at the early stage of item generation the emphasis is on developing a set of items which tap each aspect of the construct, using different shades of meaning. Subsequently, the actual data collection stage provides an important editing tool, in that items with low inter-item correlations indicate that these are not drawn from the appropriate domain of the construct under investigation and are producing error and lack of reliability.

Table I. Key elements considered by the focus group participants about beverage firms

The usefulness of a scale is determined by its psychometric properties in terms of reliability and validity. Reliability refers to the degree a questionnaire is free from error and can therefore provide consistent results. Coefficient alpha (Cronbach, 1951) enables the assessment of the quality of an instrument in this regard. A low coefficient alpha indicates that the items in the questionnaire perform poorly in capturing the construct. The elimination of items in the scale improved coefficient alpha from 0.89 to 0.92, comfortably exceeding the suggested cut-off point of 0.7 (Nunnally, 1978) and indicates that the resultant 14-item scale had a high degree of internal consistency. The resultant scale together with relevant descriptive statistics is shown in Table II.
To establish the dimensionality of the scale the items were subjected to an exploratory factor analysis with varimax rotation. The results indicated the presence of a single factor. The study carried out in the service sector by Yoon et al. (1993) also found reputation to be unidimensional among eight of the 11 companies investigated. However, the presence of a single factor together with the rather high alpha reliability score of the resultant scale, may be an indication of the presence of some larger general factor that is influencing each item (Fryxell and Wang, 1994). It is suggested that this could represent the presence of a general impression halo.

Table II. Item-total statistics of the 14-item scale

Managerial implications and recommendations

For the purposes of this study, reputation is seen as resulting from the assessment made of incomplete information received about a firm by a public over time. By understanding the cues that customers consider in formulating a corporate reputation, management can initiate activities aimed at enhancing the firm’s standing with customers. The research provides management with an instrument, with strong reliability, that enables the measurement of corporate reputation over time, thereby facilitating the assessment of the effectiveness of activities undertaken.

Human information processing theory maintains that there are limits to the ability of human beings to assimilate and process information during any period in time (cf. Jacoby et al., 1974). The huge array of information is dealt with through a process of perceptual categorization (cf. Bruner, 1957). Individuals are seen to form consistent impressions of objects early in the categorization process and this is swiftly accompanied by a drastic decline in openness to new information. This feature is built on the principle of cognitive economy with response to one stimulus extended to others as a result of the “halo effect.” Ever since Thorndike (1920), psychologists have tended to view halo as something negative that needs to be removed to arrive at the true appraisal rating of an individual. The assumption that the direction of the halo effect is top-down and that the general evaluations affect specific ratings is by far the most common and would appear to be the most relevant in the case of reputation. The presence of a “general impression halo” (Balzer and Sulsky, 1992) where particular information is forgotten over time and raters rely on their global impressions can be a beneficial rather than a harmful factor in the context of reputation. Once established, a halo determines the perception of publics of that firm and may outlast the actual reality by quite some time. Thus in the case of firms facing a temporary reverse of some sort, a positive halo provides a breathing space allowing the possibility of recovery. On the other hand, a firm with a poor reputation would have an uphill struggle in overcoming the initial negative halo that acts to limit the ease with which a more positive corporate reputation is established. Using an experimental approach that focussed on attitudes toward blood donation, Bagozzi (1996) has shown that a halo effect can be created for positive beliefs where normally none exists and reduced or eliminated in the case of negative beliefs. If confirmed in other sectors, the results indicate that firms can consider ways that enable halo effects to be managed to achieve desirable corporate objectives.

The literature reviewed has indicated a number of beneficial consequences.

A further important consequence of a positive halo extends to the effect it has on interfirm activities. Strategic alliances between firms enable them to respond rapidly and effectively to industry changes. These alliances can take many forms that range from product innovation, bringing stability to cyclical business and distribution. A firm with a positive corporate reputation has an
enhanced chance of finding a suitable partner for any type of alliance it contemplates. However, managers of strategic alliances must focus not only on issues of alliance formation but also on the management of the relationship over time (Spekman et al., 1996).

The research has a number of limitations. Reputation has only been viewed from the perspective of the consumer public. Other publics may consider different attributes in their formation of a firm’s reputation. It should be noted that the original questionnaire was conducted in Maltese. The items in Table II have been translated from the original and back again to ensure that they approach the intended meaning as closely as possible. However, some subtleties are hard to translate. Each item in the questionnaire was given equal weighting notwithstanding that product quality tended to receive the most emphasis by focus group members. As noted earlier the results of the focus groups indicate some differences in emphasis between male and female participants but this is likely to be culture related. Although this is changing, in Malta the division of roles between males and females is still quite marked. Many married women manage the household and do not participate in the labor force. The limitations relating to the samples in the survey must also be kept in mind in that these came from a quota sample. However, the firm considered in the study is the leading beverage firm in the country and known to all respondents. This of course also means that all results are firm specific.

The research opens up a number of opportunities for further developing the instrument to measure corporate reputation with different types of firms and in different cultural situations. Balzer and Sulsky (1992) provide a method of operationalizing the “general impression halo,” that offers the possibility of identifying the presence or otherwise of a halo effect during the measurement of constructs such as corporate reputation. A better understanding of the role of the halo effect in reputation can go a long way in our understanding of the resilience of reputation and its effect on other variables that include competitiveness, performance and recruitment.

References


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