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Corporate Reputation and Business Performance

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Abstract

The management of corporate reputation requires a strategic orientation that establishes and consistently maintains desired positioning for the organisation. It is important as it, potentially, influences organisational performance. However, the reputational dimensions and the extent to which this association with marketing influence performance measures have not been extensively examined. This empirical study investigates a stakeholder-focused, multi-dimensional measure of corporate reputation and aims to identify whether it is associated with organisational performance. The results indicate a positive relationship between stakeholder-focused corporate reputation and market share. However, corporate reputation does not appear to be directly associated with profit levels.

Keywords: Corporate reputation, organisational performance, market orientation, positioning, stakeholder groups
Corporate Reputation and Business Performance

Introduction

Achieving successful business outcomes requires numerous organisational and managerial competencies that take advantage of market opportunities. One approach is to apply a market orientation strategy that connects the organisation to the realities of the dominant business conditions and the organisational responsiveness capabilities in line with those conditions (Kohli and Jaworski, 1990; Narver and Slater, 1990). The rationale for being market-oriented is to create a sustainable competitive advantage, through the development and management of an organisational identity that stakeholders can relate to and believe in. This, in turn, leads to a positive market reputation, which meaningfully establishes credibility for the firm and differentiates it from its major competitors, in the minds of stakeholders. Given the importance of positioning, the formulation and consistent communication of a focused corporate reputation needs to be purposefully defined, rather than left to the market to determine.

The aim of this study is to review corporate reputation and investigate how it can be measured in terms of its associations with two business performance indicators - market share and profit. The research contributes to a better understanding of the importance of corporate reputation, and its relevance to outcome-focused reputation management.

The literature identifies three basic issues regarding reputation that warrant attention. First is the requirement for a well-grounded definition; second are the problems in operationalising corporate reputation, and last is the need for more developed theory (Walker, 2010). While the literature reflects various definitions of corporate reputation (Weiss et al., 1999; Fombrun and Shanley, 1990), a popular definition is identified as ‘a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal of its key constituents when compared with other leading rivals’ (Fombrun, 1996, p.72). Clearly, this can be characterised as the stakeholders’ perceived evaluation of the firm as compared to its competitors’ evaluation on key dimensions that resonate with stakeholders. This definition proposes that a reputation is the synthesis of various stakeholders’ perceptions and creates an organisational persona that can be formulated, implemented and managed (Neville, Bell and Menguc, 2005).

This study regards corporate reputation in terms of only one stakeholder group’s perception (i.e., managers) and how they believe consumers view the company. Therefore, for this study, we found it appropriate to use the definition offered by Wartick (1992, p. 34), which is ‘the aggregation of a single stakeholder’s perception of how well organisational responses are meeting the demand and expectations of many organisational stakeholders’. This is a more realistic and functional definition because it considers one stakeholder group’s perception about the company’s activities impacting on the expectations of many organisational stakeholders. It may be argued that since different stakeholders each have different expectations and attitudes, their interpretations and perceptions of a company’s activities would be different, with many works discussing the difficulties of aggregating and trading-off different stakeholders’ evaluation of the organisation (Fassin, 2009; González-Benito and González-Benito, 2010). Thus, any integration of all stakeholders’ perceptions may result in an overall measure of corporate reputation, which is not held by any one group. Thus, an aggregated approach to reputation could result in an image that no one stakeholder agrees
with. This study, therefore, investigates the measurement of managers’ assessment of customers’ perceptions of how the organisation has presented itself over time. The important issue is to identify the dimensions and attributes of the corporate reputation that customers would consider realistic, meaningful, and long-lasting in nature, as well as whether these are experienced over time.

Although similar in their capacity to form a strong perception, organisational reputation and brand reputation (positioning) may be related but should not necessarily be perceived as parallel concepts. There may be occasions when consumers are aware of particular products, but unaware of the company (e.g., Mars Bars and Masterfoods Corporation), or companies that have multiple brands positioned at different levels within the market, which could result in a confusing corporate image (e.g., Qantas and Jetstar, or Toyota and Lexus). The question may be asked whether customers regard the merits and characteristics of a product, or the reputation of the manufacturer of that product, in making a purchase decision.

The test of what defines a corporate reputation, therefore, comes from whatever the customer thinks and/or perceives the company stands for, that is, customers’ perceptions are a reality. This must be further explicated in the nature of determining corporate reputation through organisations’ actions, for example, in the implementation of the marketing mix.

The research question that guided this investigation is whether it is possible to develop a construct of corporate reputation for one stakeholder group, namely, the customers, as perceived by managers, and whether this measurement is associated with salient measures of market performance, that is, market share or profit? These measures are important, as it is assumed that corporate reputation should enhance market value (Christopher and Gaudenzi, 2009).

A model was constructed to demonstrate the associations anticipated and to allow for estimating those relationships (Figure 1). The key assumptions in the construction of this model are that: (1) the reputation of a corporation, as defined by customers, is important in forming its position in society; (2) the reputation of an organisation reflects the sum total of all the relevant activities that contribute to its image and position in the market; and (3) the reputation of an organisation influences its level of success in achieving performance objectives.

![Figure 1: Model of Corporate Reputation and Business Performance](image)

The model includes three reflective constructs (see Table 1 for items used): (1) Corporate

- Aware that we have something unique to offer
- Aware that we are a socially responsible company
- Aware that we are a leader in our industry
- Aware that our company provides excellent value for money
- Aware that we are an innovative company
- Aware that our company sells high quality products

![reputation construct]

Market share

Profit

Reputation

Figure 1: Model of Corporate Reputation and Business Performance

The model includes three reflective constructs (see Table 1 for items used): (1) Corporate
reputation, which represents the level of awareness of customers of (a) product characteristics - perceived as being unique, of high quality and value for money; and (b) company - being socially responsible, innovative and a leader in their industry; (2) Market share, which reflects a measure of the company’s change in market share of their main product in comparison to their major competitors’ and in comparison to their previous year’s market share; and (3) Profit, which reflects a measure of the overall organisational profit, marketing profit and return on investment. In this case, profit measures the change in profit as compared to the previous year.

**Method**

Instead of using the existing databases of secondary measures, as have been traditionally used for measuring corporate reputation (Wartick, 1992), this study uses the views of Australian company managers selected from the Dun & Bradstreet business database in regard to their perceptions of how they believed customers viewed their organisations.

The sample selection was based on manufacturing organisations with minimum $10 million reported sales and a minimum of 100 employees. The sample size of 2,932 records was randomly selected from the listing of all such companies in the database. Questionnaires were then mailed to the CEO of target companies requesting that the senior marketing personnel complete the questionnaire. There were 196 usable questionnaires received, constituting a response rate of 7.7 percent (allowing for non-deliverables and RTSs). A comparison between the outgoing sample profile and the returned questionnaires indicated no significant non-response bias based on corporate characteristics.

The questionnaire items for corporate reputation and performance indicators were taken and compiled from various existing studies (mainly from Helm, 2005; Roberts and Dowling, 2002; Caruana, 1997). The research instrument was modified through a two-stage, pre-test process. The first phase included in-depth discussions with two groups: (1) academics comprising two marketing specialists and a psychologist, and (2) three practising senior marketing managers. Panel members were requested to review the instrument for its content, format, and presentation. Comments and suggestions from these two panels, where they were considered to be appropriate, were implemented. These suggestions mainly included re-wording of some questions to improve clarity.

In terms of the two dependent variables, these were created for this research. Market share refers to the percentage of the firm’s market segment sales as subjectively assessed by managers. This definition allows for performance to be compared across organisations and market segments. The organisational profit refers to the profit generated in relation to the operation in that market where the product is sold, as defined by the respondent.

The data were analysed using both descriptive measures and exploratory factor analysis, in AMOS. All measurements were tested separately for internal consistency-reliability (Cronbach’s Alpha) and predictive validity (Table 1).

**Results and Discussion**

In order to address the research questions the estimates of the model (Figure 1) were used.
The results indicated that the predictive model fits the data appropriately based on the following statistics: \( \chi^2 = 25.62 \text{ df} = 20, p = .18, \text{CMIN/df} = 1.28, \text{RMR} = .06, \text{GFI} = .97, \text{AGFI} = .94, \text{CFI} = .99, \text{TLI} = .98, \text{RMSEA} = .04. \)

The key element of the research question was to determine whether it was possible to develop a composite construct of corporate reputation for the customer stakeholder group, based on managers’ views. It was concluded that, based on the contributions represented by the item scores and the composite reliability obtained (.84) for the construct, it was a reliable measure of consumer views based on managers’ subjective assessment.

**Table 1: Exploratory Factor Analysis Key Variables**

<table>
<thead>
<tr>
<th>Key Variables</th>
<th>Loading</th>
<th>t-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate reputation</strong> (Alpha = .85, CR = .84, AVE = .51)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We believe our customers are:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aware that our company sells high quality products</td>
<td>.74</td>
<td>9.3</td>
</tr>
<tr>
<td>Aware that we are an innovative company</td>
<td>.70</td>
<td>9.1</td>
</tr>
<tr>
<td>Aware that our company provides excellent value for money</td>
<td>.72</td>
<td>9.4</td>
</tr>
<tr>
<td>Aware that we are a leader in our industry</td>
<td>.65</td>
<td>8.4</td>
</tr>
<tr>
<td>Aware that we have something unique to offer</td>
<td>.75</td>
<td>9.8</td>
</tr>
<tr>
<td>Aware that we are a socially responsible company</td>
<td>.80</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Change in market share</strong> (Alpha = .79, CR = .88, AVE = .67)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We gained overall market share over our major competitors last financial year</td>
<td>.90</td>
<td>14.9</td>
</tr>
<tr>
<td>Our main product gained market share over our major competitors last year</td>
<td>.96</td>
<td>14.9</td>
</tr>
<tr>
<td>We have a system in place to regularly measure our performance against our expectations</td>
<td>.48</td>
<td>7.2</td>
</tr>
<tr>
<td>The unit sales of our main product last year were better than in the previous year</td>
<td>.45</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Change in profit</strong> (Alpha = .94, CR = .94, AVE = .75)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The overall financial performance last year was better than in the previous year</td>
<td>.87</td>
<td>14.4</td>
</tr>
<tr>
<td>The marketing profit for our main product last year was better than in the previous year</td>
<td>.79</td>
<td>14.3</td>
</tr>
<tr>
<td>The overall organisational profit last year was better than in the previous year</td>
<td>.98</td>
<td>17.2</td>
</tr>
<tr>
<td>The return on investment last year was better than in the previous year</td>
<td>.95</td>
<td>16.4</td>
</tr>
<tr>
<td>The overall business performance last year exceeded expectations</td>
<td>.72</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Alpha = Cronbach’s Alpha, CR = Composite Reliability, AVE = Average Variance Extracted

The research question also examined whether the corporate reputation construct was associated with the construct of a change in market share, and the constructs were found to be positively associated (.38, p < .01). The results also indicated that corporate reputation was not directly associated with the change in company profit (-.02, p = n.s.). However, change in
market share is positively associated with change in profit (.53, p<.01), that is, the higher levels of change in market share are associated with higher levels of change in profit (Table 2).

The results in Table 2 suggest that managers believe an organisation can develop a positive reputation by communicating certain features of the organisation to consumers that directly relate to its ethical and social responsibility characteristics and their product offerings. As such, they believe that being a leader in the industry appears to indicate overall market acceptance, and successful operation reflects credibility and general acceptance as well as, potentially, being an aggressive marketer and innovator.

<table>
<thead>
<tr>
<th>Table 2: Estimates of Associations for Model</th>
<th>Standardised Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation → change in market share</td>
<td>.38 p &lt; 01</td>
</tr>
<tr>
<td>Reputation → change in profit</td>
<td>-.02 p &gt; 05</td>
</tr>
<tr>
<td>Change in market share → change in profit</td>
<td>.54 p &lt; 01</td>
</tr>
</tbody>
</table>

The perception of an organisation as a leader in the industry in terms of being socially responsible, is also a significant contributor to its overall reputation, which, in turn, potentially, increases market share, although not necessarily profitability. With respect to product offerings, it may be argued that, potentially, customers consider unique and high quality product, which at the same time represents value for money, as being an important contributor to the reputation of the company.

Conclusions

It has been established that single stakeholder perceptions can be used for effective corporate reputation management. The key implication of this study is that managers’ subjective assessment of consumers’ perceptions of corporate reputation relates to their assessments of organisational performance. Moreover, it indicates that corporate reputation is associated to the market share performance, but only at a moderate level (.38 p< .01). It implies that there are other direct marketing initiatives that would influence performance more directly and effectively, that is, reputation alone is not sufficient to drive organisational performance, and increased reputation does not necessarily lead to increased profitability. This is consistent with research that suggests that while consumers say they are willing to pay a premium for goods, it does not always eventuate in the market (Nguyen and Leblanc, 2001). It also concurs with other research questioning the value of CSR initiatives (Luo and Bhattacharya, 2006). As such, a socially responsible reputation may simply become one of the overall attributes that consumers expect modern organisations to deliver along with the traditional product core features. Therefore, a purposeful formulation and sustained communication of a corporate reputation, potentially, strengthens other marketing initiatives in achieving successful market operation.

These conclusions have implications for allocating budget to support the implementation of a strong corporate reputation and all the associated activities. This does mean that the organisation also needs to have someone responsible for managing its corporate reputation in a focused and structured fashion, rather than seeing it as one of many communication activities. Further work needs to be undertaken to identify how company reputation can be more effectively managed.
References


