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CORPORATE REPUTATION’S PLACE IN MEASURING BUSINESS PERFORMANCE

Abstract

The growing research interest into corporate reputation is explained by its potential to create, maintain and increase financial performance. Favorable corporate reputations are intangible assets that offer a strategic competitive advantage to firms, explaining the relationship between reputation and profits. A new paradigm appeared while considering this dependence: does corporate reputation lead to value creation or does profit come first? Researchers investigated if profit is a cause or an effect of a good reputation, but opinions are different. This paper illustrates how a good reputation can increase a company’s performance by offering an overview of existing studies in the field.

Key words : Corporate reputation, business performance, intangible assets, business strategy

1. Introduction

Two of the most important issues for companies are the management and cost to industries and their stakeholders of access to resources. These costs can be environmental, social, economical, political or reputational. The capability of companies to earn trust of stakeholders is critical to their sustainability and corporate reputation plays a significant role in this.

Research on corporate reputation has identified antecedents and consequences of reputation to better explain how a firm may benefit of the best strategically position. While financial performance has been identified as a major predictor of reputation, it accounts for possibly 36 to 59 percent (Brown and Perry, 1994) or only 15 percent (Roberts and Dowling, 2002) of the variance in reputation. More recent researchers have created new constructs as possible predictors of reputation that tend to dichotomize tangible and economically related resource assets versus intangible resource assets, such as competence and sympathy and perceived quality and prominence (Rindova, Williamson, Petkova and Sever, 2006).

There is an increasing interest in corporate reputation as a source and its influence on the sustainability and competitiveness of companies. It is anticipated that the paper assists companies in understanding why reputation is vital for their performances and facilitates the management of reputation within the context of changing societal expectations of business.

2. Overview of Corporate Reputation

The concept of corporate reputation has been given a lot of research in the fields of Marketing and Management, starting with years 1970-1980. If at the beginning it seemed hard for researchers to find a definition for this concept, nowadays the literature provides thousands of definitions for it. Attention was mostly payee after Fombrun and Shanley’s

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(1990) seminal article. Recent reviews and meta-analyses of reputation research document consistent and divergent findings (Large, Lee & Dai, 2011; Walker, 2010).

Defining reputation is a challenging task given it is difficult to conceptualize (Nguyen and LeBlanc, 2001) and does not lend itself to discrete measurement. Organizations must consider that their reputation is a powerful means of measuring their overall performance in their market place, keeping in mind that this asset can contribute to value creation.

Schultz, Moritsen and Gabrielsen (2006) considered that reputation is a derivate of all organizational actions and comportments, being hard to isolate a unique variable and to interpret it as the one that influences the most the perception of stakeholders. Thus, reputation is the sum of the organizational representations during the time in the perception of the public (Grunig and Hung, 2002; Yang and Grunig, 2005) and it is developed by using a bilateral communicational complex between the company and its stakeholders (Rindova and Fombrun, 1999). Moreover, reputation is judged in the context of competitive market (Fombrun and Van Riel, 2004; Shapiro, 1983; Schultz, Moritsen and Gabrielsen , 2006), it hasn't the same value for all stakeholders, it is not a standard.

Corporate reputation is a multidimensional construct, where a firm's reputation emerges from multiple constituent groups (e.g. customers, investors, employees, general public) and their interaction with each other (Fombrun and Shanley, 1990). These multiple constituents use various criteria, economic and non-economic, to arrive at an overall general assessment and reputation of the firm that is "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with leading rivals" (Fombrun, 1996).

Being an intangible asset, corporate reputation creates an important strategic competitive advantage over its rivals because it is a resource that helps a firm to differentiate it from others, is rare, difficult to imitate by other organizations and without a substitute (Barney, 1991).

The definition of reputation has evolved (Walker, 2010), but "a definitive of the construct has yet to emerge is spite of numerous attempts to describe and integrate the definitions in use" (Lange, et. al., 2011). As expected, having different points of view in regard to reputation has lead to different ways of measurement. Wartick (2002) suggested that a scale to measure reputation would be misguided because it does not start with a clear definition. Moreover, reputation is often confused with the concepts of identity, image, prestige, esteem.

Charles Fombrun's analysis (1996) contains five principles to be taken into consideration when measuring corporate reputation: distinctiveness, focus, consistency, identity and transparency. Walker (2010) extends and refines this definitions by identifying five attributes: 1.) it is based on perceptions (internal and external); 2.) these perceptions are all from stakeholders; 3.) reputation is inherently comparative; 4.) reputation can be positive and negative; 5.) reputation is stable and enduring.

Views on the nature of corporate reputation construct diverge (Cornelissen and Thorpe, 2002). These range from an aggregate perceptual judgment by all stakeholders groups, based on the organization's past actions (Dolphin, 2004) to the view that an organization may have multiple reputations, as each stakeholder group will consider a different set of attributes (Caruana, 1997; Wartick, 2002).

3. Financial view of corporate reputation

The different facets of reputation have been studied in order to establish how companies can get the best of this competitive advantage. Two of the major objectives of every business is to gain profits and to increase corporate performance. Thus, studies for reputation focused in the last decades on financial aspects and ways to user reputation for value creation.

Firms with favorable reputations are more likely to achieve and sustain a superior financial performance over time (Sabate & Puente, 2003). Good corporate reputations are critical not only because of their potential for value creation, but also because their intangible character makes replication by competing firms considerably more difficult. Corporate reputation can be a key contributor to an organization's success and it can just as easily be a contributing factor to an organization's failure (Ladipo & Ranhim, 2013).

The view that corporate reputation positively impacts on firm performance has been documented. In fact, even accounting literature backs the notion that corporate reputation causes an enormous amount of wealth encapsulated in what is called goodwill, while some conventional wisdom assert that the reputation which organizations orchestrate for themselves do cause sustainable profits (Iwu-Egwuonwu, 2011).

Wang and Smith (2008) focused on determining "if a market value premium is associated with reputation and an evaluation of whether the market value premium, if it exists, is derived from superior financial performance or lower risk" and they found that "indeed high reputation firms do enjoy a market value premium". They concluded that the behavior of reputable organizations creates intangible assets that are as valuable as would distinguish them from their peers in the industry. This result supports impression management theory to the extent that those businesses that effectively direct their reputation management efforts 'will receive tangible economic and other benefits like an increase in the wealth of shareholders.' Their findings also indicate that "high reputation firms experience superior financial performance and a lower cost of capital or lower risk." They further show that "high reputation firms are more profitable on several dimensions such as industry-adjusted sales to total assets and return on assets. They also have lower risk because they experience lower volatility in sales and net income; have less likelihood of bankruptcy and lower price volatility.

It can be stated that reputation has a value, even if it cannot be expressed financially and its reduction represents a business risk. Most companies don't know about the drivers of corporate reputation and how to protect against devaluation risk. The severity of this damage and the cost will depend on the influence of the stakeholder group and its impact on the organization. Fombrun (2012) considers that reputation can be managed and every company should have a department specialized in this field. His arguments are based on nowadays economic landscape: "Not only do we know that reputation can be successfully measured, but research confirms that a good corporate reputation engenders positive support from stakeholders. We also know that positive support, such as recommendations, drives business results."

4. Corporate reputation and business performance

While the focus on the paper is to emphasize the relationship between corporate reputation and business performance, some researches should be taken into consideration.

Flatt and Kowalczyk (2011) conducted a study to establish the relationship between corporate reputation persistence and its diminishing returns by using a sample of 103 firms and their activity during 3 years. Results showed that a firm's prior reputation is persistent, but diminishes over time and prior financial performance had an increased effect over time. Furthermore, firm's performance helped to increase a firm's change in reputation, while prior reputation had a greater stabilizing effect.

Taghian, D'Souza and Polonsky (2010) created a model to emphasize the link between business performance and corporate reputation. The model includes three reflective constructs: 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 organizational profit, marketing profit and return on investment. In this case, profit measures the change in profit as compared to the previous year. Results indicate that corporate reputation is associated to the market share performance, but only at a moderate level, implying that there are other marketing initiatives that would influence performance more directly and effectively, that is, reputation alone is not sufficient to drive organizational performance, and increased reputation does not necessarily lead to increased profitability. Also, a socially responsible reputation may simply become one of the overall attributes that consumers expect modern organizations 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

Roberts and Dowling (2002) study's results consistently suggest that superior-performing have a greater chance of sustaining superior performance over time if they also posses relatively good reputations. Authors place reputation building in past, on the same time with financial performance. While reputation is built and gets a better value, financial performance follows its increasing trend.

Fombrun (2012) offers a practical perspective of a week reputation during crisis moments: "Rupert Murdoch appeared before the Leveson Inquiry into media ethics and apologized for his short comings during the News of the World phone-hacking scandal. The Guardian reported that he said it had been 'a serious blot on my reputation'. He admitted that he had failed, but that he didn't personally know about the extent of hacking. This blot on reputation manifested itself through share prices, which dramatically decreased from April 2011 to April 2012, when Rupert Murdoch appeared before the inquiry. Reputation Institute tracks the link between financial performance and its own reputation measurement system. This shows that in 2011, BSkyB's reputation was 'average' with a score of 63 out of 100. In 2012, it dropped to 53 with governance and trust in particular suffering".

The examples provided shows how corporate reputation affects profits as part of business performance, using studies conducted from different countries and for different industries. Whatever is the place of reputation in the life of a company, its link to performance exists and it can be established by conducting a research for a specific example.

5. Conclusion

Corporate reputation plays an important strategic role for every company, being an intangible asset with the potential of value creation. Recent studies are focused on this aspect of reputation because in a very competitive marketing, it is critical to find inimitable assets that can provide more income to the company.

While reputation refers mostly to the perception of stakeholders, its definition can't be general one and so, different scales of measurement and interpretation have been created. Each one explains the details for specific situations and moments. Thus, we agree that offering examples for the relationship between reputation and performance is an important for understanding it.

Some companies invest in their reputation and create a strong one in order to sustain their market position or even make it stronger. Examples from the paper show the perspective of analysis for corporate reputation and the moments in which the connection to profits is made. A weak reputation can have disastrous consequences for companies; earned trust is hard to maintain, but ensures sustained performance.

The value of reputation can't be defined precisely, but its potential can lead to greater value of the company. Thus, this relationship is a strategic chance to place companies on better positions on market and to maintain it by using the advantages offered.

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