SOME IMPORTANTS DEFINITIONS AND MESUREMENT METHODS OF CORPORATE REPUTATION

MIHAELA SANDU
PhD. Student at Faculty of Economic Science
„Lucian Braga University", Sibiu
mihaela9sandu@yahoo.com

Abstract

Reputation is one of the most important intangible corporate active. In the literature we can find different definitions and methods of measurement for reputation. In this paper we will emphasize some of them. We will see how increased the importance of reputation in the last years. We will see how important this asset is for the company and how a positive reputation determines the competitive advantage for the company.

Key words: corporate reputation, reputation measurement, competitive advantage

Clasificare JEL : *M40, M41*

1. Introduction

Corporate reputation has gained field in management area. The managers become more and more aware of the importance of this intangible asset. It is known that a good reputation is used to sell products for good prices, to attract and maintain the best employees and the best business partners, to penetrate new profitable markets.

This paper is structure as it follows: chapter 1 is an introductive one; in chapter 2, we can find some important definitions of corporate reputation; chapter 3 is about some of the important methods to measure corporate reputation, some media classification and also about some important models for reputation measurement; in chapter 4, I discuss the modality that reputation affect competitive advantage of a company; chapter 5 is the final one in which I spoke about some conclusions and limitations of this paper.

2. Corporate reputation – important definitions

According to the Explanatory Dictionary of Romanian language [22], reputation express the favorable or unfavorable public opinion about someone or something, the way that someone known or appreciated you. Reputation is present in our life, in our relationship with others or with society from early age. There is no doubt that the reputation is subjective and it depends on how others perceive us. It also underpins the confidence of others and our relationship with them significant influence over our reactions and behavior in different situations. It is a complex concept difficult to interpret in a particular context; it depends on the perception of others.

Gotsi and Wilson [1] say that reputation is the evaluating of the company made for a certain period of time by the business partners. Bromley [2] believes that reputation is the social impression about what is considered a firm will behave in a given situation. Fombrun [3] says that reputation is based on a set of beliefs of the community about company's ability and her desire to meet the interests of different partners. We can see that in all definitions stated above there is a pronounced element of "subjectivity of evaluating the company's reputation." [4]

Reputation can be defined as a distribution of opinions about an entity [5] or interaction among/ between business partners over which the company has no direct role or is not investing in it [6]. Also, reputation is the result of past actions [7] or the result of repeated actions resulted in time and from experience accumulated [8]. It can be the element that will determine achievement expectations by comparing the company with competitors. [9]

Corporate reputation is an intangible capital of the company which is defined as the firm value that exceeds physical asset. [10] A Latin Maximum says that a good reputation is worth more than money. Reputation expresses firm past performance, the customer and business partner's confidence and its promise for the future in an uncertain and changing environment.

Reputation is an important asset of the corporation to meet the needs of investors, employees and the public. Warren Buffett (Berkshire Hathaway President) said that "It takes 20 years to build a reputation and 5 minutes to destroy it. If you think about that you'll do things differently." [23] What W. Buffet said makes us to think that the risk has social implication; people tend to perceive it as a threat and lose sight of its dual aspect. Also we can think that people should react and learn from the mistakes made in the past and of course to improve them behavior.

3. Corporate reputation – important measurement methods

To measure reputation there were made a number of classifications of companies according to consumer preferences. To see how things progress in this area, we will review eight important reputation studies as they were presented by Fombrun in his work [11]:

1. Fortune AMAC. In 1984 was made a classification of Fortune's Most Admired Companies in the U.S. Until 1995 Fortune 500 ranking was considered the most complex of companies in the U.S., when the place was taken by Fortune 1000. The ranking is based on 8 elements: management quality, quality, long-term investment value, innovation, financial solidarity, the ability to attract and retain skilled employees, environmental and corporate responsibility, and effective use of resources. About 8,000 people were asked by mail or telephone about U.S. companies. Not all of them response to the survey; for example, in 1985 the percentage of those who answered to the questionnaires was about 50%. [12]

2. Store Manager (MM). In 1987 was made a study about 100 companies from Germany. For these, there were questioned 2,000 managers on five importants areas: management quality, innovation, communication skills, financial stability and environment protect.

3. Management Today (MT). In 1991 was made a British study about 250 companies on nine different aspects: management quality, financial solidarity, the ability to attract and retain the best employees, long-term investment value, innovation, marketing quality, social protection and environmental, efficient use of resources.

4. Asian Business (AB). In 1992 8600 senior executives received emails and they were asked to rate 50 companies based on 9 criteria: administration, management quality, products and services quality, contributing to the local economy, employees, potential profit, ability to change economic environment.

5. Far Eastern Economic Review (FEER). In 1993 were surveyed 6,800 executives from 11 Asian countries about: awareness of the company, leadership, products and services quality, long-term investment value, innovativeness.

6. Financial Times (FT). The survey was made in 1994. First they classified the best companies from Europe and after a time they classified the best companies in the world.

7. Industry Week (IW). In 1997 was developed the ranking about "the 100 best managed companies". To realize this they used the votes cast by 85 international experts. There were considered a sample of 1000 companies. Based on their financial development from this sample were chosen 100 companies.

8. Fortune GMAC. In 1997, Fortune magazine ranking developed "the most globally admired companies." Senior executives were questioned about various companies. To realize the study there were chosen biggest companies of all over the world and were eliminated those dominated by a single country or who have more than 4 branches. Participants chose the company they admire most in each branch of industry. The classifications was developed based on eight criteria: management quality, products and services quality, long-term investment, financial results, ability to attract and retain competent employees, responsibility towards the environment and community; efficient use of resources. In conclusion they measured the company's ability to operate globally and the reputational impact on company capital. [13]

Even the interest in making such classification is very important, based on the things which stayed at the base of those studies; we can say that Fortune and other classification are weak methods to measure corporate reputation.

Regarding to measurement models for reputation there are some based on financial information about company as price share or profit information and views on the opinions about techniques of a data structure. According Gabbi's model [14] of equation (1), daily profit is a linear combination of benchmarking profitability rate, rate of return

Banking and reputation, taking into account the error term. Reputation variable is a qualitative variable called dummy variable which we denote by 1 when increases and decreases to 0 when.

$R_{i,t} = \alpha + \beta_1 R_{Mkt,t} + \beta_2 R_{Banks,t} + \beta_3 Rep_t + h_{er}$ (1)

Also, this model can be extended taking into account that there may be relationships between variables that are not necessarily linear. In this case we can consider additive model General [15]:

$g(E(R_{i,t})) = \alpha + f_1(R_{Mkt,t}) + f_2(R_{Banks,t}) + f_3(r_{e,t})$ (2)

Model (2) is time independent. Taking into account the dynamic component t, reputation can be modeled using time series. Because assuming homeoscedascticity variance error [16], [17], we can consider Auto Regress Integrated Moving Average (Arima) model. Thus, Bollerslev (1986) [18] proposed a general model which introduces the p-value is the remainder of conditional variance model, where p is the order GARCH. The combination is called conditional autoregressive model heteroscedascic general GARCH (p, q) and has the following form:

$R_{i,t} \sim N(x_{it}\beta, h_{it})$ (3.1)

$E_{IT} = Y_{it} - X_{it}\beta$ (3.2)

Another model for measuring reputation is that of Shapiro [19] who says that it is a linear combination of the company's reputation in the past and a number of factors that contribute to maintaining it.

$Rep_{tiles} = \alpha 0 + \alpha_1 Rep_{t-1} + \Sigma\, \alpha_k x_{kt} + e_t$ (4)

where x_{kt} are factors for determining reputation.

I have to say that those models listed before measure reputation but there are not eternal available. All those models refer to a certain part and can’t be generalized to all industries.

4. Corporate reputation – competitive advantage

Studies have shown that a good reputation is a source of competitive advantage. [20], [21] Although studies of Fortune shows reputation is a source of competitive advantage conclusions are limited because the evaluation was poor: classification has much to do with financial performance; persons who are selected to make assessments were directors of companies and analysts - a few stakeholders; were omitted some important category of stakeholders as customers, supply, government agencies, special interest groups, employees and so on; the classification refers only to large companies, we don’t know if reputation is a source of competitive advantage for small firms too. An important and not to ignore is Fortune’s purpose for accomplish this study - saleing the journal and not a scientific one to study reputation or social performance.

Reputation is the element or the identity which make the clients to be proud for being associated with that company and which make proud the employees for working for that company. Stakeholders know exactly what that brand or reputation means; it’s something that can’t be falsified, at least not perfectly falsified.

On the other hand, reputation affects your image or the way that other people see you. A positive image will attract people, clients and stakeholders; it is very good to set prices. So, we can say that a good reputation helps company to keep the best people, to attract and keep the best clients and to put value in pricing.

If we are curious where competitive advantage intervene, we have to think at durability which is an important element for people, company and profit. That means the employee’s experience and their interactions with the clients are ways to reduce productions costs and to facilitate premium prices.

5. Conclusions

This paper is a review of the literature about corporate reputation. There were listed some of the most important definitions about corporate reputation and some important models and methods to measure it.

Reputation is one of the most important intangible assets of a company. It is very fragile, hard to build and easy to destroy. In our days the development of the technology has an important role in economic growth. But, in the case of reputation technology development has a negative role too; a bad news can do round the world in less than 5 minutes.

We can't quantify this intangible asset but his value is incontestable. A good reputation implies a series of benefit for the company: attracting and maintaining good clients, suppliers and employees, premium prices. A good reputation is the guaranty of products quality, the guaranty of an efficient strategy.

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