Examining the Antecedents and Consequences of Corporate Reputation: A Customer Perspective

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Abstract

This paper extends previous work to examine the antecedents and customer-related consequences of corporate reputation for one important stakeholder group, customers, and within a special service sector where product and corporate associations are synonymous. We begin by linking the concept of corporate reputation to related concepts. Then, using structural equation modelling on customer survey data (n=511), we examine the impact of customer satisfaction and trust on corporate reputation, as well as how corporate reputation affects customer loyalty and word of mouth behaviour. The management implications of these results are discussed.

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Introduction

A growing body of research demonstrates that a firm's soft assets, its identity and reputation represent a competitive advantage that is hard to imitate and can contribute to superior profits (e.g., Gardberg and Fombrun, 2002; Groenland, 2002; Whetten and Mackey, 2002; Gotsi and Wilson, 2001; Yoon *et al*., 1993). Indeed, some management academics and practitioners feel that the managerial considerations of reputation are no less significant than those involved with operational, legal, and financial decisions (Jones, Jones and Little, 2000). This is because a strong corporate reputation has been shown to be associated with reduced transaction costs together with beneficial financial and non-financial outcomes (e.g., Eberl and Schwaiger, 2005; Caruana, Ramasashan and Krentler, 2004; Rose and Thomsen, 2004; Shapiro, 1983). While reputation has attracted attention in the management and marketing literatures (e.g., Davies *et al*., 2002; Gardberg and Fombrun, 2002; Roberts and Dowling, 2002; Fryxell and Wang, 1994), there are limitations to what we currently know.

First, most previous research on corporate reputation (e.g., Fombrun, Gardberg and Sever, 2000; Doney and Cannon, 1997) have used multiple stakeholder groups and studies of specific stakeholder groups such as customers have been much less common (exceptions to this include Davies *et al*., 2002; Page and Fearn, 2005). This is despite the fact that customers are one of the most important stakeholder groups because they create revenue streams. As a result, existing empirical studies tend to focus on antecedents of corporate reputation that are not associated with consumer experiences, such as critical news reports (e.g., Dunbar and Schwalbach, 2000), but do not examine variables related to customer behaviour.

Second, previous studies are mainly concerned with identifying antecedents of corporate reputation, but the potential "consequences of corporation reputation have been less well examined empirically" (Jones, Jones and Little, 2000, p. 21). This weakness needs further research as the relevance of corporate reputation arises mainly from its postulated impact on stakeholders' (e.g., customers') behaviour as a reaction to their perception of corporate reputation (Herbig and Milewicvz, 1993). For example, can a good corporate reputation have promotional, i.e., customer recruitment benefits as well as retention, i.e., customer loyalty benefits? Consequences such as positive word of mouth are seen by some authors as much more powerful than traditional forms of marketing (Silverman, 2001).

Third, most previous work has been undertaken in manufacturing companies, yet it can be argued that the importance of corporate reputation is greater for services firms than manufacturers. This is because other factors, such as reputation, become particularly important in services where there is little physical evidence to evaluate and for services high in credence qualities where customers cannot evaluate elements of the service at all sometimes (Hardaker and Fill, 2005; Bromley, 2001). As Wang, Lo and Hui (2003, p. 76) argue "Reputation plays an especially important strategic role in service markets because the pre-purchase evaluation of service quality is necessarily vague and incomplete." Due to their intangibility, the quality of services may be more difficult to evaluate by consumers and thus, service firms may be more likely to feel the effects of reputation loss than other types of firms (Kim and Choi, 2003; Fombrun, 1996). The effects of reputation are therefore more likely to affect service firms than manufacturers especially when these services are high in credence qualities. Unfortunately, most previous work has ignored the complication of the difference between the corporate reputation for goods and service brands. The service context of energy supply firms was purposely chosen for this study partly because of the credence qualities of energy and partly because the corporate brand is synonymous with the product brand. Moreover, as we conceptualized corporate reputation as an attitude that results from a customer's interaction with a given firm, these interactions are more likely to take place when customers deal with service firms, where customers' evaluations are driven as much by the process of service delivery and the interpersonal interaction experiences with service personnel as by the actual product itself.

Since the empirical evidence on the relationship between corporate reputation and potential antecedents and consequences is scarce, this study attempts to establish the direction and strength of these relationships using a new measure and in a unique service context. Our main contributions are to: 1) apply a US customer-based corporate reputation scale in Europe, by drawing a scale from Walsh and Beatty (2007); 2) propose a conceptual model that links corporate reputation to antecedents and consequences. Based on the model, we develop and test hypotheses connecting corporate reputation to important marketing variables, such as loyalty and word of mouth which need to be monitored by companies; 3) use Signalling Theory to provide an explanation for corporate reputation's relationship with outcome variables; 4) provide advice on how companies can affect corporate reputation using trust and satisfaction. The article begins by delineating corporate reputation from the related concepts of corporate identity and corporate image.

Conceptual background

Corporate reputation and other corporate associations

As the literature on the relationship between corporate identity and corporate reputation has been criticised for being 'foggy' (Balmer, 2001), it is important to delineate it from related concepts. For example, according to Fombrun (1996, p. 111), identity is the "backbone of reputation", and to "focus on a company's reputation also is to determine how it deals with all of its constituents; it is to focus on a company's character or identity". One way to delineate the related concepts of corporate identity, corporate image (intended and construed), and corporate reputation is to view them as different kinds of 'corporate associations' (Berens, van Riel, and van Bruggen, 2005; Brown and Dacin, 1997). Brown and Dacin (1997, p. 69) use corporate associations as a "generic label for all the information about a company that a person holds." In extending Brown and Dacin's work and in an attempt to propose a unifying terminology, Brown *et al*. (2006) distinguish between four types of corporate associations: 1) 'Identity', which refers to mental associations about the organization held by *organizational members*. 2) 'Intended image', which refers to mental associations about the organization that organization leaders want important audiences to hold. 3) 'Construed image', which refers to mental associations that organization members believe others outside the organization hold about the organization. 4) Reputation, which refers to mental associations about the organization actually held by *others outside the organization*. It is this latter category which we use in this study by focusing on one stakeholder group, customers, and the associations they hold about their service supplier. Thus, the primary distinction between identity and reputation appears to be in the eye of the beholder, i.e., who is doing the evaluation.

Definitions of corporate reputation

There is a similar diversity in definitions of the concept of corporate reputation (see Table 1), as well as in its measurement. That said, most authors who have put forth a definition of corporate reputation seem to agree that corporate reputation is a collective phenomenon as their definitions revolve around a given group's (e.g., stakeholders) ability to recognize and correctly interpret 'what a firm stands for' (e.g., Rose and Thomsen, 2004; Weiss, Anderson, and MacInnis, 1999). An implicit assumption in this seems to be that such groups will collectively have either a similar view of the company or that differences between groups are not managerially significant. We suggest that this is limiting because each stakeholder group (e.g., industry experts, financial analysts) is bound by a common past and shared value system which leads to shared and similar within group perceptions of a firm, but which will differ between groups. Roberts and Dowling (2002) for example examined perceptions of industry analysts, as well as company managers and directors, but they admit that their reputations scores are likely confounded by their respondents' knowledge of the financial performance of the firm. Furthermore, the assumption that all stakeholders such as competitors, employees and in particular customers will have similar managerial relevance and importance is questionable. Rose and Thomsen (2004) used manager and analyst perceptions of corporate reputations, and concluded that "the case for questioning business people rests on an assumption that they are better informed about other companies than the population at large, but it is clear that the causes and effects of general public image may be different and that this invites further research" (p. 204). Indeed over twenty years ago, Freeman (1984) was suggesting that since different publics attend to different features of a firm's performance, reputation reflects a firm's relative success in fulfilling the expectations of multiple stakeholders.

(Insert Table 1 approx. here)

Customers seem to be a company's most important stakeholder as they are the primary generators of revenue for the business. This alone indicates a reason to study them separately, relative to corporate reputation. Also, customers can have a greater impact on each other through word of mouth regarding the firm's reputation than the company's advertising or publicity materials are likely to have on customers. The scale of this impact has recently increased dramatically with on-line communications and word of mouth or word of mouse being able to influence thousands of consumers almost instantly. Second, consumers in particular can be very easily influenced by non-company communications such as a TV or press news story about the company. Third, most researchers have addressed dimensions of corporate reputation, e.g., financial performance, social and environmental responsibility, reliability of service delivery. These would appear to depend heavily on how customers perceive the company as to what effect they will have on the overall reputation of the firm.

For example, social responsibility is not a company-generated phenomenon, as companies simply try to do what society, i.e., consumers, think is good at a given point in time. Financial performance of the company is largely a result of the customers liking the company and its products.

We might also argue that the previous multiple stakeholder approaches which have measured perceptions of employees, city analysts, shareholders, and the media are actually measuring a ‘derived’ perception and that the perceptions of these stakeholders are determined to a large extent on what customers think of the company. We are not the only scholars to mention this omission in the literature. For instance, Dowling (2001) argues that when measuring corporate images and reputations it is important to identify the opinion leaders in the community because these people will have a disproportionate influence on how other people evaluate the organisation. He also argues that an important determinant of the reputation a person holds of a company is the relationship that the person has with the organisation and customers are more likely than other stakeholders to have a ‘relationship’ with a company. Roberts and Dowling (2002) recommend that future research should focus on customers as probably the most important stakeholder group.

Scholars’ views of the dimensionality of the corporate reputation construct have evolved over time. Some researchers have conceptualised and measured corporate reputation in a unidimensional way (e.g., Doney and Cannon, 1997; Anderson and Robertson, 1995; Bhattacharya, Rao and Glynn, 1995). More recently, a more sophisticated notion of corporate reputation as a multidimensional construct has begun to gain increasing acceptance. Dowling (2001) suggests that the reputation of a company is a combination of the admiration, respect, trust, and confidence in the future actions of the organisation. Representing those that view corporate reputation as a multidimensional construct, Fombrun *et al*. (2000, p. 243) define a corporate reputation as “a collective assessment of a company’s ability to provide valued outcomes to a representative group of stakeholders.” Other researchers have discussed corporate reputation in relation to trust, service quality, and profitability (e.g., Rose and Thomsen, 2004; Roberts and Dowling, 2002). We follow this approach by viewing customer-based corporate reputation as a multidimensional construct (Walsh and Wiedmann, 2004; Davies *et al*., 2002).

Following Walsh and Beatty’s (2007) recent study of customer-based corporate reputation, we adopt their definition of the construct of customer-based reputation as “as the customer’s overall evaluation of a firm based on his or her reactions to the firm’s goods, services, communication activities, interactions with the firm and/or its representatives or constituencies (such as employees, management, or other customers) and/or known corporate activities."

Walsh and Beatty (2007) view customer-based corporate reputation to be comprised of five information content dimensions. *Customer orientation* refers to the customers' perception of the willingness of company employees to satisfy customer needs (e.g., Brown *et al*., 2002). The *good employer* dimension is concerned with customers' perceptions about how the company and its management treats its employees and pays attention to their interests, and customer expectations that the company has competent employees. The *reliable and financially strong company* dimension is about customers' perception of the company in terms of competence, solidity and profitability. Moreover, it measures customers' expectations that the company uses financial resources in a responsible manner and that investing in the company would involve little risk. The *product and service quality* dimension refers to customers' perceptions of the quality, innovation, value, and reliability of the firm's goods and services. Finally, the *social and environmental responsibility* dimension captures customers' beliefs that the company has a positive role in society and towards the environment in general. As our focus is not on the dimensionality of corporate reputation, but on the antecedents and consequences, we first demonstrate the multidimensional scale's validity and then treat corporate reputation as a uni-dimensional construct in the analysis. This approach is consistent with *Fombrun et al.* (2000).

The starting point for our conceptual model and the hypotheses derived from it is the notion that customer-based corporate reputation is influenced by, as well as influences important customer variables. We visualize a conceptual model, which includes two antecedents and consequences of customer-based corporate reputation, respectively. See Figure 1.

Antecedents of Corporate Reputation

Whereas most researchers treat corporate reputation as an independent variable (i.e., antecedent) (e.g., Walsh, Dinnie and Wiedmann, 2006; Helm, Eggert, and Garnefeld 2005; Weiss *et al*., 1999; Fombrun and Shanley, 1990), some researchers treat it as an outcome variable (e.g., Wang *et al*., 2003). It appears that it is not entirely clear if corporate reputation functions as a predictor or consequence of other variables. For example, Fisher (1996, p. 90) points out that it is difficult to understand the causality between a good reputation and relevant outcomes such as financial performance and argues "Good name is to strong financial performance as chicken is to egg. It's not always clear which begets which, but it's awfully hard to have one without the other". This notion of reverse causality is echoed by Roberts and Dowling (2002) and Fombrun and Shanley (1990). The latter found that a higher performance leads to a good corporate reputation, which in turn enhances a firm's likelihood of performing well in the future. However, the focus of our study is not on financial, but customer-behaviour related antecedents and consequences of reputation, for which we do not imply reverse causality. There is a general premise that the more favourable general estimation the public has of an entity (individual, organization, etc.), the more positive the impact of the public's attitude, actions and behaviour on that entity. In the following section we develop predictions related to two antecedents of reputation: customer satisfaction and trust.

Customer satisfaction The relationship between satisfaction and trust and customer-based corporate reputation has not been examined before. However some studies have suggested antecedents of a good corporate reputation, for example, organizational behaviour (Fombrun and Rindova, 2000). Importantly for our study researchers have also identified customers' evaluations of a firm's actions and what is known about the firm as key antecedents (e.g., Fombrun and Shanley, 1990; Sobol and Farrelly, 1988). One of these key customer indicators is satisfaction. In a retailing context, Davies *et al.* (2002) demonstrated that a positive corporate reputation and customer satisfaction are associated. Walsh *et al.* (2006) had a similar finding in the context of utility services. Whilst these studies show an association between customer satisfaction and customer-based reputation, they do not assess whether or how customer satisfaction *impacts* upon customer-based reputation. Nguyen and Leblanc (2001) argue that reputation can be used as an effective means of predicting the outcome of the service-production process, and can, perhaps, be considered the most reliable indicator of the ability of a service firm to satisfy a customer's desires. Even when satisfaction has been measured as service quality and overall product quality in a banking context, a significant positive relationship with the bank's reputation has been found (Wang *et al.*, 2003). Given the previous research it is likely that customers will attribute a good reputation to a company that fulfils or exceeds their expectations. We therefore hypothesise that:

> H1 *Customer satisfaction has a positive effect on customer-based corporate reputation.*

Trust The relationship between trust and corporate reputation has been emphasized in marketing (e.g., Doney and Cannon, 1997; Ganesan, 1994). Several authors have mentioned trust and confidence in the future actions of the organisation as a key correlate of corporate reputation (e.g., Rose and Thomsen, 2004; Dowling, 2001; Roberts and Dowling, 2002). However, this link has rarely been empirically established. Walsh and Beatty (2007) show that trust is a correlate of customer-based customer reputation, however, trust was not modelled as a predictor of reputation. The benefits of reputation postulated in the literature are associated primarily with the reduction of uncertainty. This plays an important role in the marketing of energy because of the intangibility of the offering. As electricity has many credence qualities because it cannot be evaluated even after purchase, this suggests that the value of energy products must be taken on faith (trust). Like previous researchers (Moorman, Deshpande and Zaltman, 1992; Anderson and Weitz, 1989), we see trust in terms of willingness to rely on an exchange partner in whom one has confidence. An important aspect of this is that trust is seen as a belief, a sentiment or expectation about the exchange partner that results from the partner's expertise, reliability and intentionality. By trusting a company, customers are likely to think the company is acting fairly, being reliable, and showing concern for its exchange partners, including customers, over a period of time. If consumers trust a company this will positively affect their feelings and evaluations of the company and its reputation will improve. We therefore hypothesise that:

H2 *Trust has a positive effect on customer-based corporate reputation.*

Now we turn to the consequences of corporate reputation.

Consequences of Corporate Reputation

A good corporate reputation has been shown to positively impact on financial performance (e.g., Fombrun and Shanley, 1990), as well as on different constructs, such as customer retention (e.g., Andreassen and Lindestad, 1998; Barich and Kotler, 1991) and positive word of mouth behaviour (e.g., Groenland, 2002; Fombrun and van Riel, 1997). Adopting an information economics perspective to corporate reputation makes it possible to examine potential favourable and unfavourable outcomes. Signalling theory posits that information is not equally available to all parties at the same time, and that information asymmetry is the rule (Spence, 1973). It is generally suggested that a company's reputation is an important signal with the potential to reduce customers' risks and to motivate customers to adopt a product (Fombrun and Shanley, 1990; Spence, 1973). A good reputation is a signal of quality and sound company behaviour towards market transactions. A firm's reputation signals to customers the level of output and quality variance, with a lower variance, engendering a better reputation. Further, reputation is a useful tool to ensure the production of quality goods and services and to project information about it. To be credible, companies must have a 'bonding' component, otherwise a company will suffer reputation loss if it falsely signals high quality (Ippolito, 1991).

Customer loyalty Several empirical studies have attempted to link perceived corporate reputation with customer loyalty (e.g., Walsh and Wiedmann, 2004). Others report that reputation has an indirect impact on customer retention (e.g., Andreassen and Lindestad, 1998; Barich and Kotler, 1991). A company's reputation may serve as a quality promise for customers. This should push companies to continually focus on serving their customers with high quality products and services with integrity and honesty. If executed well, it should reduce the customer's transaction costs and perceived risk and encourage greater customer loyalty, functioning as a formidable barrier to market-entry (Rose and Thomsen, 2004; Dierickx and Cool, 1989). In a marketing context, Wernerfelt (1988) showed that consumers exposed to new products with a familiar brand name extended characteristics of the brand to the product and thus a good company reputation would suggest consumers would judge the products more favourably. Thus, our third hypothesis is:

H3 *Customer-based corporate reputation has a positive effect on customer loyalty.*

Word of mouth behaviour The quality-enhancing effect of reputation can be explained by the fact that companies offering poor product quality will be penalized by customers, who will engage in negative word of mouth. On the other hand, customers who perceive the company to have a good reputation would be expected to be more willing to engage in positive word of mouth than those customers who do not perceive the company has a good reputation. This means that companies with very good reputations will stimulate positive word of mouth, while companies with very poor reputations may stimulate negative word of mouth. This idea is supported by Sundaram *et al.* (1998) who found eight motives for word of mouth, one of them being 'helping the company'. It is likely that companies with a good reputation can create a goodwill reservoir for themselves which can involve customers acting as advocates of the company. We therefore hypothesise:

H4 *Customer-based corporate reputation has a positive effect on customers' positive word of mouth*.

Method

Research setting, procedure and sample characteristics

The focus for the study was a sample of customers of a German energy supply company. A total of 2,000 randomly chosen customers were written to and asked to fill in the accompanying questionnaire. As an incentive, several prizes were raffled off among participants. The mailing generated 511 usable responses. Table 2 provides a description of the sample characteristics. The majority (58%) were aged 50 years or older; just over one third of the sample were male; and around one third had been educated through to at least intermediate secondary school. Given the age profile of the sample, it is not surprising that the largest occupational category is pensioner.

(Insert Table 2 approx. here)

Measures

Respondents were asked to give their responses to the same set of items measuring the study variables, together with a number of demographic variables. Adopting Richins' (2004) argument for the value of a short form of measures, *Corporate reputation* was operationalised using a 15-item subset of the corporate reputation scale developed by Walsh and Beatty (2007). All items were measured on five-point Likert-type scales where 1 = *"agree completely"* and 5 = *"disagree completely"*. Coefficient alpha for the 15-item scale was 0.93. This scale does not make a distinction between corporate level and product level associations as the study was conducted on a monolithic organisation with only one product. The items measuring the five dimensions of customer-based corporate reputation are presented in Table 3.

(Insert Table 3 approx. here)

Customer satisfaction reflects "a judgment of a pleasurable level of consumption-related fulfilment, including level of under-fulfilment or over-fulfilment" (Arnould, Price and Zinkhan, 2004, p. 755), and was measured by a three-item scale adapted from Kelly and Davis (1994). Coefficient alpha was 0.87. *Trust* was assessed by four items adapted from Doney and Cannon (1997) and Andaleeb (1996). Coefficient alpha was 0.82. *Loyalty* was assessed by three items adapted from Hennig-Thurau *et al.* (2002) and Sproles and Kendall (1986). Coefficient alpha was 0.65. *Word of mouth* was assessed by two items adapted from Hennig-Thurau *et al.* (2002). Coefficient alpha was 0.85. All items (see Table 4) were measured on five-point Likert-type scales where 1 = *"agree completely"* and 5 = *"disagree completely"* (i.e., a low score equals more of the concept measured). Scale scores for each construct were created by averaging the responses to individual items, and Table 6 shows means and standard deviations for the study variables, together with the correlation matrix.

(Insert Tables 4 approx. here)

Measurement Validation

In order to assess the quality of the measurement model for the study variables, a confirmatory factor analysis was undertaken, where corporate reputation was measured as a 15-item, uni-dimensional construct, and the hypothesised antecedents and consequences were represented by four latent variables. This oblique factor model was found to be a reasonably good fit to the input data, with GFI = 0.91, RMR = 0.03, RMSEA = 0.05, CFI = 0.95, and χ^2/df = 2.38 (p<0.001). All indices exceeded the recommended threshold levels (e.g., Baumgartner and Homburg, 1996; Bagozzi and Yi, 1988). All indicators loaded significantly (p<.001) and substantively on their respective constructs with all standardized factor loadings exceeded .40 (standardised loadings ranged from .55 to .81). Given these positive results, evidence is provided for convergent validity of the measures (Steenkamp and van Trijp, 1991).

Because we use only one source (i.e., customers), who provide their assessment of the dependent and independent variables, we acknowledge the possibility of common method bias. Procedural remedies cannot completely eliminate the common method bias, so we apply methods suggested by Podsakoff *et al*. (2003) to test for common method bias. Specifically, after testing the multi-dimensional customer-based reputation scale, we examined the relative merits of customer-based corporate reputation as a second-order construct. The fit of the five-dimensional model was good with GFI = 0.92, RMR = 0.027, RMSEA = 0.075, CFI = 0.94, and χ^2/df = 3.88 (p<0.001). The fit of the second-order model (i.e., when we added a common method factor) provided reasonably good fit that was only slightly poorer than that of the multi-dimensional model, with GFI = 0.91, RMR = 0.028, RMSEA = 0.076, CFI = 0.94, and χ^2/df = 3.90 (p<0.001). Therefore, we conclude common method bias is not a significant issue in our study.

Before using the customer-based corporate reputation scale to test our research hypotheses, the scale's validity was further tested. Specifically, to assess construct validity of the five-dimensional corporate reputation scale, we regressed a three-item variable measuring customer loyalty on the five corporate reputation dimensions. The corporate reputation items in Table 3 measuring the five respective dimensions were aggregated to five composite variables. The results of the regression analysis, which are reported in Table 5, show a relatively high coefficient of determination ($R^2 = 0.32$) and beta values between -.042 and .291 (at $p < 0.05$).

Next we regressed the two-item variable measuring customer word-of-mouth on the five corporate reputation dimensions. The results of the regression analysis show a relatively high coefficient of determination ($R^2 = 0.58$) and beta values between .043 and .376 (at $p < 0.05$).

We also examined the level of collinearity among the independent variables. A common measure for collinearity in regression models is the variance inflation factor (VIF). It is generally suggested that the VIF should be smaller than 10 for all variables (e.g., Hair *et al.*, 1998). This criterion was met for all five independent variables in both regression models. The results, as shown in Table 5, provide evidence for the scale's predictive validity.

(Insert Table 5 and 6 approx. here)

Results

Using AMOS 6.0, a structural equation model was fitted to the study item set, with 27 observed variables and latent variables representing corporate reputation (second-order factor model, with five first-order factors and one second-order factor) and its hypothesised antecedents and consequences. The study hypotheses were assessed by examining the standardised regression coefficients from the structural model (see Figure 1).

All four hypothesized paths were significant. Customer satisfaction and trust both have a significant impact on corporate reputation. In addition, corporate reputation significantly affects customer loyalty and word of mouth. The model fits the data very well with all indices above recommended levels: GFI=.90, CFI=.95, NFI=.92, RMR=.028, RMSEA=.055, and χ^2/df=2.55; $p<.001$). All items were retained, although some indicators had coefficients of determination just above the threshold of .40. The average variances extracted of each model variable was above .50 (Bagozzi and Yi, 1988; Fornell and Larcker, 1981).

The left side of the figure shows the path coefficients for predicting corporate reputation from its two hypothesised antecedents. Both predictors are significant (for customer satisfaction = 0.46, p < .01; while for trust = 0.53, $p < .01$), indicating that they both make an independent contribution to predicting corporate reputation. Thus hypotheses 1 and 2 are supported. Turning next to the hypothesised consequences of corporate reputation, Figure 1 shows that corporate reputation is a significant predictor of customer loyalty (0.87, $p < .01$), supporting hypothesis 3; and also a significant predictor of word of mouth (0.96, $p < .01$), supporting hypothesis 4. This is consistent with previous work (e.g., Walsh and Wiedmann, 2004; Andreassen and Lindestad, 1998) that postulates a strong corporate reputation-loyalty link.

By explaining 93 percent of customer-based corporate reputation, the relevance of customer satisfaction and trust for customers' perceived firm reputation is clearly demonstrated. Further, by explaining 76 percent of customer loyalty and 92 percent of the word of mouth construct, the relevance of customer-based corporate reputation is also demonstrated.

(Figure 1 about here)

In addition, we established the validity of the corporate-reputation scale by regressing the five dimensions on customer loyalty and word of mouth. With this approach, we learn that three of the five dimensions ('Customer Orientation', 'Reliable & Financially Strong Company', and 'Product and Service Quality') are significantly related to customer loyalty, while four of the five dimensions (all but 'Social & Environmental Responsibility') are related to word of mouth. Thus, we see reasonable consistency in findings whether we are looking at the overall reputation measure or the break-out dimensions. However, we also learn that not all the dimensions are equally important to consumers and their loyalty and word of mouth.

Discussion and Implications

All four hypothesized model relationships were supported by the quantitative data collection and assessment. Whilst some studies show an association between customer satisfaction and customer-based reputation, they had not assessed whether or how customer satisfaction *impacts* upon customer-based reputation (Davies *et al*., 2002; Wang *et al.*, 2003; Walsh *et al.*, 2006). Our results show that high levels of customer satisfaction positively impact on customer-based reputation. Hence, we believe our findings support a causal explanation of the satisfaction-reputation relationship. We agree with Nguyen and Leblanc (2001) who argue that reputation can be used as an effective means of predicting the outcome of the service-production process, and can, perhaps, be considered the most reliable indicator of the ability of a service firm to satisfy a customer's desires.

The same is true for trust. Although several authors have mentioned trust and confidence in the future actions of the organisation as a key correlate of corporate reputation (e.g., Rose and Thomsen, 2004; Dowling, 2001; Roberts and Dowling, 2002), this link has rarely been empirically established. Even Walsh and Beatty (2007) who show that trust is a correlate of customer-based customer reputation did not model it as a predictor of reputation.

In terms of consequence variables, Signalling Theory predicts that customer-based reputation would exhibit a strong impact on customer loyalty and word of mouth. While several empirical studies have attempted to link perceived corporate reputation with customer loyalty (e.g., Walsh and Wiedmann, 2004) and others report that reputation has an indirect impact on customer retention (e.g., Andreassen and Lindestad, 1998; Barich and Kotler, 1991), here we show a direct, positive relationship between corporate reputation and these variables. While loyalty importance has never been underestimated, recently the importance of word of mouth has been stressed in the literature. In fact, Reichheld (2003, 2006) suggests whether a customer will recommend the firm or not is the only question firms really need to ask in order to grow and succeed.

Managerial Implications

For service managers, a key insight from this study is that customer-based corporate reputation can be measured relatively parsimoniously and that customer-based corporate reputation is positively correlated with important consumer antecedent and outcome variables. Conventional managerial wisdom holds that attending to corporate reputation makes good business sense because relevant commercial and non-commercial factors are affected. Based on the results of this study, a more differentiated analysis seems appropriate. A key assertion demonstrated in this study is that customer-based corporate reputation is not only influenced by, but also influences critically important customer-behaviour related variables. This differentiated analysis of the antecedents-corporate reputation and corporate reputation-outcomes relationship may help firms use their resources more effectively by focusing on antecedents and consequences that are of the greatest strategic importance to them.

The findings suggest that managers wanting to have a good corporate reputation should note how important delivering customer satisfaction is to achieving that goal. This is noteworthy as much of the corporate reputation building considers the views of many different stakeholders as important, and considers issues such as social responsibility and financial strength as key drivers of reputation. While this may be so, our study points to the importance of getting your service right as another key driver of a good reputation. Indeed, what might be happening is satisfaction is casting a ‘halo’ effect onto the reputation items, i.e., because consumers are satisfied with the company’s service, they give more favourable ratings to the elements of the company’s reputation. Thus, rather than focusing on the elements of corporate reputation such as; *good employer, reliable and financially strong company, social and environmental responsibility*, companies should focus more on the c*ustomer orientation and product and service quality,* aspects of the reputation as these are likely more directly linked to customer satisfaction. This is evidenced by the strong impact of the ‘customer orientation’ dimension on customer loyalty and word of mouth (see Table 5).

Another implication for service firms of customer satisfaction and trust influencing customer-based corporate reputation, is that customers often derive their sense of a company’s reputation from their interactions with its employees. This means that service organisations should ensure that employees are empowered to act in the way customers want and that leads to satisfaction and that engenders trust. Measures to ensure high levels of satisfaction include satisfaction monitoring and staff training which will enable employees to try to help customers make satisfactory purchase decisions and enjoyable interactions with the firm.

Our results further suggest that a good corporate reputation has retention, i.e., customer loyalty benefits as well as has promotional, i.e., customer recruitment benefits. Increased customer loyalty benefits are hugely important in deepening relationships with customers and assessing a customer’s lifetime value. If a company has good reputation, then investments in customer loyalty programmes would seem to be a good way to spend money. However, with a poor reputation, the company may be better off to spend that money on increasing customer satisfaction with their service and focussing on service improvement goals as well as conducting research to identify sources of dissatisfaction for consumers. The second aspect is word of mouth which is considered by some to be an independent part of the promotional mix (Warrington, 2001) because of its unique qualities of being a non-marketing two-way flow free exchange of information which is an experience-delivery mechanism, independent and therefore credible. In addition, word of mouth is custom-tailored, more relevant and complete, as well as self-generating and self-breeding. Moreover, it can help leverage other forms of promotion such as sales promotions or advertising as consumers have a favourable attitude towards the company because of its good reputation and are more willing to talk about their promotional campaigns. Knowing the level of their organisation’s reputation should allow managers to decide on whether it is beneficial to enlist dedicated WOM campaigns to support other ongoing promotional activities or new product launches. With a poor reputation, there will be little word of mouth and such money would be wasted.

Finally, a general implication for the energy suppliers in this newly deregulated sector is that they should aim to quickly achieve a good reputation because it can be a market-entry barrier for competitors who might wish to enter the newly opened market. Once established a good reputation is very difficult to replicate and building a good reputation incurs costs (e.g., Dierickx and Cool, 1989) which new entrants might not be willing to pay. Existing energy suppliers who are interested in building a strong reputation need to accept costs in the short-run (reputation investment) in expectation of long-term benefits which will outweigh the investment cost. Those same costs might be sufficient to discourage new entrants but the incumbent companies must be willing to invest in reputation building and do it quickly.

Conclusions, Limitations and Further Research

This study aimed to make four contributions. The first was to apply an abbreviated version of a US scale in Germany. The second was to embed customer-based corporate reputation in a model connecting corporate reputation to important antecedents and consequences. The third was to draw on Signalling Theory to provide an explanation for corporate reputation's relationship with the two selected outcome variables of customer loyalty and word of mouth. The fourth was to provide advice on how service firms can affect corporate reputation using trust and satisfaction.

In pursuing these objectives, we extend previous work to examine the antecedents and customer-related consequences of corporate reputation of one important stakeholder group, customers, within a service sector which has unique properties for corporate reputation research. We have been able to measure corporate reputation for a company which is not contaminated by product brand associations as most previous measure have been. We have also been the first to examine the impact of customer satisfaction and trust on corporate reputation as well as how corporate reputation affects important customer outcomes such as customer loyalty and word of mouth behaviour. We conclude that customer-based reputation is an important outcome of customer satisfaction and trust as well as predictor of customer loyalty and word of mouth. By specifying the consumer antecedents and consequences of reputation in more detail, appropriate steps can be taken by companies to avoid a bad reputation. Companies that are able to improve the way in which they deliver their services can improve customer satisfaction and trust and can lead to a positive reputation. Our primary contribution to theory lies in applying an adapted new customer-based corporate reputation scale in Europe which captures the views of customers who have interacted with their service firms. Thus, this study represents an important step in that it attempts to measure corporate reputation from a customer perspective.

However, as with all empirical investigations, the present study suffers limitations. The service context used, although intentioned to test a reputation measure, does not allow testing for cross-sectional impacts of corporate reputation and context-specific reputation effects. Future research could investigate if the effects we examined can be confirmed for other service areas. For example, it is conceivable that corporate reputations are more relevant (and hence a stronger direct impact on loyalty) for highly individualized and interactive services or more ‘tangible’ services such as hairdressing or restaurants. Similarly, since this study focused on a service firm, future studies could explore whether the customer-based reputation scale is equally effective in measuring the reputation of manufacturing firms. Another concern refers to the issue of whether German cultural and reputation-related peculiarities (e.g., Wiedmann, 2002; Witkowski and Wolfinbarger, 2002) may influence the construct and its dimensionality, as well the antecedents and consequences associated with corporate reputations. A final limitation is the use of a single instrument to assess both the independent and dependent variables. The use of one method risks common method bias and although it cannot explain the independent contributions that we find when predicting reputation, or the way in which the variables work in different ways across the model, further research should consider using different methods to assess the different aspects of corporate reputation.

In terms of further research, much of the work in the corporate reputation area does not use existing theories for explanation, and further work could use Contingency Theory as it is likely that corporate reputation only becomes truly salient to motivate customers to boycott or be loyal when the firm itself is in an industry with a poor reputation which would require looking at different firms in different industries which have good and bad reputations. It could be, for example, that the relationships we examine would be far stronger in an industry such as the insurance industry which has a poor reputation and weaker in an industry such as cosmetics which has a better reputation. Additional research is therefore needed to establish the customer-based corporate reputation scale’s generalizability and test it further across cultures and service contexts. Further research could be directed towards looking at the 5 dimensions of corporate reputation and their relationship to the antecedents and consequences identified, since in this study we treated reputation as a unidimensional construct for analysis purposes.

It might also be the case that there are similarities across or differences between drivers and outcomes of customer-based versus other stakeholder-based views on corporate reputation. By understanding the antecedents of customer-based reputation and customer-based reputation-outcomes relationships across different company types, firms can come closer to developing a comprehensive reputation management program. Effectively managing its reputation would require firms to know and communicate its different target audiences. Thus, another extension of the customer-based reputation scale would be to use it for market segmentation and identify for each stakeholder group which of the five dimensions of corporate reputation was most important to them. Knowing this, companies could tailor communications about specific dimensions to particular stakeholders. Managing reputations also implies that a firm identifies all relevant correlates of customer-based reputation. However, as we only used two antecedents of corporate reputation, we could not investigate other potential causes such as customer commitment or customer citizenship behaviour (Groth, 2005). In a similar vein, as our focus was on consumer consequences, we were not able to link measures of corporate reputation to financial and market performance indicators which (together with customer-related factors) should be part of the architecture of any organization’s performance measurement and management process. Future research might examine such linkages to strengthen the business case for investing in corporate reputation. Another aspect is to look at the same relationships here longitudinally so that a more accurate picture of the timing of antecedents and consequences is built up. Finally, no research has systematically assessed the relative importance of each stakeholder group, e.g., customers, industry analysts, shareholders, senior managers and directors, employees, general public, suppliers in determining corporate reputation over time.

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Figure 1. Model of antecedents and consequences of customer-based corporate reputation

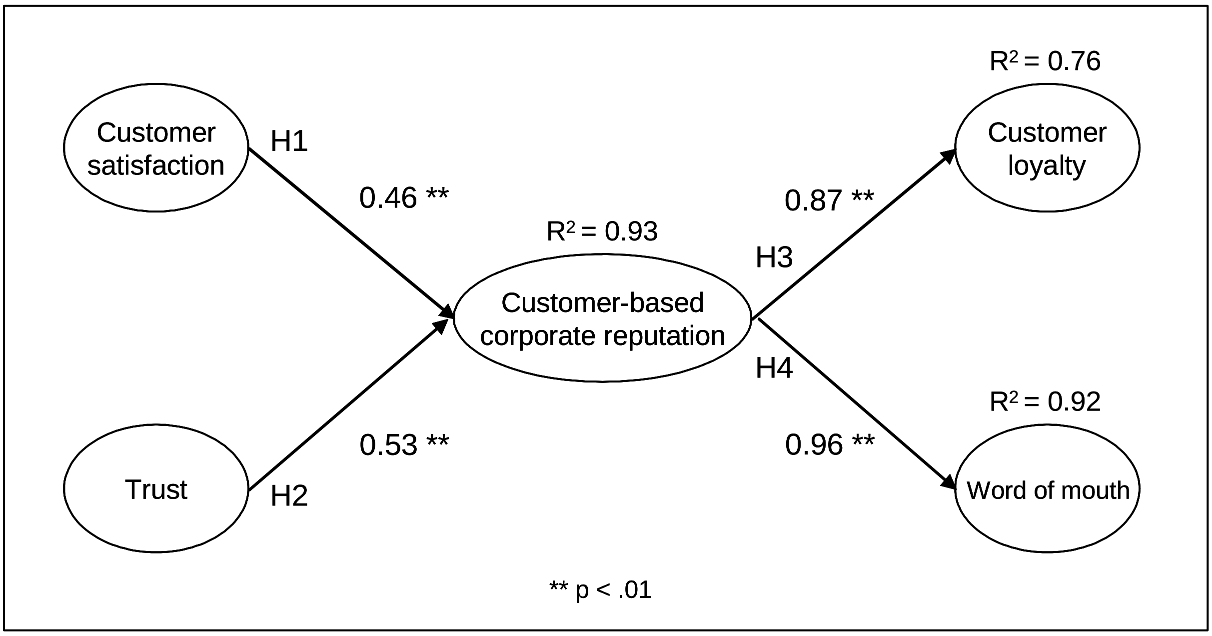

Table 1. Definitions of corporate reputation and studies

Author(s)	Definition	Study
Herbig and Milewicvz (1993), p. 18	"Reputation is an aggregate composite of all previous transactions over the life of the entity, a historical notion, and requires consistency of an entity's actions over a prolonged time."	Conceptual study
Fombrun (1996), p. 72	"(…) corporate reputation is a snapshot that reconciles images of a company held by all its constituencies."	Conceptual study
Weiss, Anderson and MacInnis (1999), p. 75	"Thus (…) reputation reflects how well it has done in the eyes of the marketplace."	258 US respondents (key informants), mail survey, 5 items (α=.86; α=.80)[a]
Fombrun, Gardberg and Sever (2000), p. 243	"A reputation is therefore a collective assessment of a company's ability to provide valued outcomes to a representative group of stakeholders."	Measurement scale developed in the US, focus groups and three pilot studies (n=663; n=2516; n=8454), EFA, the α coefficient for the (final) 20-item scale was .84, the Cronbach alphas for the six subscales were not reported.
Bromley (2000), p. 241	"(…) the way key external stakeholder groups or other interested parties conceptualise that organization."	Conceptual study
Bromley (2001), p. 317	"Reputation can be defined as a distribution of opinions (the overt expression of a collective image) about a person or other entity, in a stakeholder or interest group."	Conceptual study
Schultz, Mouritsen and Gabrielsen (2001), p. 24	"Reputation combines everything that is knowable about a firm. As an empirical representation, it is a judgement of the firm made by a set of audiences on the basis of perceptions and assessments."	Conceptual study on the mechanics of reputation rankings drawing on secondary data.
Gotsi and Wilson (2001), p. 29	"A corporate reputation is a stakeholder's overall evaluation of a company over time. This evaluation is based on the stakeholder's direct experience with the company, any other form of communication and symbolism that provides information about the firm's actions and/or a comparison with the actions of other leading rivals."	Conceptual study
Rose and Thomsen (2004), p. 202	"[corporate reputation] is identical to all stakeholders' perception of a given firm, i.e. based on what they think they know about the firm, so a corporation's reputation may simply reflect people's perceptions."	Two types of data were used: image ratings from a Danish business periodical and financial information from the Copenhagen Stock Exchange (of 62 firms), CA, EFA, RA
Schwaiger (2004), p. 49	"we conceptualize reputation as an attitudinal construct, where attitude denotes subjective, emotional, and cognitive mindsets."	The sample contained 300 German, American and British respondents, respectively that were asked to evaluate several German firms, CA, EFA, CFA, reputation was measured as two-dimensional construct (α=.76; α=.78)
Walsh and Beatty (2007)	"the customer's overall evaluation of a firm based on his or her reactions to the firm's goods, services, communication activities, interactions with the firm and/or its representatives (e.g., employee, management) and/or known corporate activities."	5-dimensional measurement scale developed in the US, depth interviews, expert judgment, pilot study (n=504), scale validation (n=698), EFA, CFA, the α coefficients for the 5 sub-scales ranged from .80 to .93.

Author(s)	Definition	Study
Note: CA = correlation analysis; CFA = confirmatory factor analysis; EFA = exploratory factor analysis [a] Weiss et al. measure two types of reputation: 1) the manufacturer's impression of how customers perceive its own reputation and 2) the manufacturer's impression of how customers perceive its rep's reputation		

Table 2. Sample characteristics

Characteristic		**Percentage**
Age	19-29	4.7
	30-39	12.6
	40-49	19.5
	50-59	15.4
	60+	43.0
	No answer	4.9
Gender	Male	71.0
	Female	29.0
Education	Not Graduated from School	0.6
	Lower Secondary School (Hauptschule)	32.3
	Intermediate Secondary School (Realschule)	32.0
	Grammar School (Abitur)	7.5
	University Degree	21.1
	No answer	6.5
Occupation	White-collar Worker	23.5
	Blue-collar Worker	8.7
	Housewife/House-husband	2.2
	Student	0.8
	Pensioner	33.0
	Self-employed	10.8
	Civil Servant	13.8
	Unemployed	3.0
	No answer	4.1

Table 3. *Item wording for the customer-based corporate reputation scale*

Customer Orientation (α = .92)

1. The company treats its customers in a fair manner.
2. The company's employees are concerned about customer needs.
3. The company's employees set great store by a courteous customer treatment.
4. The company takes customer rights seriously.

Good Employer (α = .89)

1. Looks like a good company to work for.
2. Looks like a company that would have good employees.
3. Maintains a high standard in the way it treats people.
4. Has excellent leadership.

Reliable and Financially Strong Company (α = .88)

1. Looks like a company with strong prospects for future growth.
2. Recognizes and takes advantage of market opportunities.
3. The company is aware of its responsibility to society.

Product and Service Quality*

1. Offers high quality products and services.
2. Is a strong, reliable company.

Social and Environmental Responsibility*

1. Supports good causes.
2. Is an environmentally responsible company.

*The Cronbach alpha was not calculated for these two-item dimensions.

Table 4. *Item wording for the antecedents and consequences of corporate reputation*

Customer Satisfaction

1. I am satisfied with the services the company provides to me.
2. The company always fulfils my expectations.
3. The company solves problems quickly and competently.

Trust

1. I tend to trust the company's goods and services.
2. This is an honourable company.
3. In general, I trust the company's employees that sell something to me.
4. I do know the company's prices are appropriate.

Loyalty

1. The prospect of lower prices would make me switch to another company (R)
2. If it were possible without a problem, I would choose another company (R)
3. I intend to remain the company's customer.

Word of mouth

1. If I were asked, I would recommend becoming a customer of the company.
2. I would recommend this company to friends and acquaintances.

Note: (R) item is reverse-scored

Table 5. *Regression with five corporate reputation dimensions on customer loyalty and word of mouth*

	Mean (SD)	**Beta**	**Sig.**	**VIF**
		CL / WoM	CL / WoM	CL / WoM
Customer Loyalty (CL)	3.42 (.91)			
Word of Mouth (WoM)	3.97 (.79)			
Customer Orientation	3.90 (.71)	.29** / .38**	.000 / .000	2.55 / 2.55
Good Employer	3.95 (.64)	.09 / .17**	.141 / .001	2.82 / 2.82
Reliable & Financially Strong Company	3.84 (.70)	.16** / .16**	.009 / .001	2.61 / 2.64
Product and Service Quality	3.93 (.88)	.14* / .13**	.011 / .001	1.96 / 1.94
Social & Environmental Responsibility	3.76 (.69)	-.04 / .04	.397 / .265	1.72 / 1.73
Summary Results:	Regression Summary$_{\text{Customer Loyalty}}$: R = .567; R^2 = .322; Adjusted R^2 = .315; Std. Error of estimate = .750			
	Regression Summary$_{\text{Word of mouth}}$: R = .764; R^2 = .584; Adjusted R^2 = .579; Std. Error of estimate = .514			

Note: VIF = Variance Inflation Factor; ***p*<0.01; **p*<0.05

Table 6. *Summary measures and correlations for study variables*

	1	2	3	4	5
1 Corporate reputation	-				
Antecedents of reputation					
2 Customer satisfaction	.77 **	-			
3 Trust	.78 **	.82 **	-		
Consequences of reputation					
4 Customer loyalty	.49 **	.48 **	.52 **	-	
5 Word of mouth	.75 **	.85 **	.80 **	.51 **	-
Mean	3.90	3.99	4.08	3.62	3.98
Standard deviation	0.58	0.75	0.66	0.91	0.79

** Correlation is significant at the 0.01 level