

Research article

The key factors of firm image

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Abstract

We look at three suppositions usually held in the company image documentation: (i) reputation ratings of owners and investors are generally representative of all stakeholders; (ii) stakeholders will generally provide a higher reputation rating to firms that emphasize corporate social responsibility versus firms that do not; and (iii) profitability is the primary criterion of importance to all stakeholders when rating a firm's reputation. Using an exploratory in-class exercise, our results suggest that: there are significant differences among stakeholder groups in their reputation ratings; firms that emphasize corporate social responsibility are not rated more highly across all stakeholder groups; and for all stakeholder groups, the ethicality criterion explained more of the variance in firms' reputation ratings than the profitability criterion.

Keywords: Keywords: Firm image, Corporate social responsibility, Empirical investigation.

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1. Introduction

Reputation has not only been described as an organization's most important *intangible* asset (Hall 1993) but also as "the single most valued organizational asset" (Gibson et al. 2006, p. 15). Researchers have repeatedly found a link between reputation and organizational performance (Brown and Perry 1994; Deephouse 2000; Fombrun and Shanley 1990). A good reputation can lead to numerous strategic benefits such as lowering firm costs (Deephouse 2000; Fombrun 1996), enabling firms to charge premium prices (Deephouse 2000; Fombrun 1996; Fombrun and Shanley 1990; Rindova et al. 2005), creating competitive barriers (Deephouse 2000; Fombrun 1996; Milgrom and Roberts 1982), increasing profitability (Roberts and Dowling 2002), and attracting new members (Fombrun 1996; Turban and Greening 1997), investors (Srivastava et al. 1997), and customers (Fombrun 1996). Simply put: "Reputations are rent-producing assets—they create wealth" (Fombrun 1996, p. 387).

Despite the importance of and the increasing number of studies that examine corporate reputation (Barnett et al. 2006), ongoing concerns and challenges continue to plague the field, particularly with regard to defining and operationalizing the construct (Mahon 2002; Walker 2010; Wartick 2002). The purpose of this article is to empirically test some implicit assumptions

evident when corporate reputation is defined as the amalgamation that is an organization's "overall appeal," for all stakeholders encompassing all criteria (Fombrun 1996, p. 72), especially when the ratings to measure this amalgamation are provided by owners and investors.

Although this amalgamation approach is the most common way to measure corporate reputation in the literature, it has several notable shortcomings. First, an amalgamation approach ignores the fact that different stakeholders are likely to use differing—often self-serving—criteria in their reputation evaluations (Rindova et al. 2005; Sjøvall and Talk 2004). Indeed, research has demonstrated that marketers are best advised to cater to the different attributes among stakeholder groups (Fiedler and Kirchgeorg 2007). This implies that stakeholders differ in what they value within organizations (Hillenbrand et al. 2012). For example, the ethicality of a company may be more important to a community member than its profitability, but profitability may be more important to an owner than ethicality. A simple amalgamation approach overlooks this fact and would be akin to saying someone should feel fine if their hair is on fire but they are sitting on ice (Smith 2002).

Second, reputation ratings have largely focused on the profitability of a company, excluding other important criteria such as ethicality, social responsibility, and sustainability. Given well known ethical disasters such as

Enron and Worldcom, and the growing importance of environmental and social responsibility (Waddock 2008), criteria beyond profitability are playing an increasingly large role in reputational ratings (Lee et al. 2009; Rowe 2006; Stuebs and Sun 2010; Waddock 2000; Williams and Barrett 2000).

Third, and building on the first two reasons, the representativeness of owners (who may be primarily concerned about profitability) for all stakeholder groups seems to be increasingly questionable, if it can ever have been deemed acceptable. The common practice of measuring corporate reputations based only on the ratings of one stakeholder group seems unnecessarily shortsighted, especially for an asset as important as firm reputation. In line with Nietzsche's (1967, p. 191, original 1882) opinion that "I think well of all scepticism to which I may reply: 'Let us try it.' But I no longer want to hear anything of all those things and questions which do not permit experiments," we conduct an exploratory experiment to empirically examine these possible shortcomings. The results of the experiment also have implications on how reputation could be defined and operationalized in future research.

This article proceeds as follows: First, we review how image has been defined and operationalized in the literature, with particular attention to the use of an aggregate measure. Second, we describe the study we designed to test our hypotheses and present the results. Finally, we conclude with the implications of our research.

2. Literature review

Although researchers have been rigorously studying corporate image for decades (e.g., Milgrom and Roberts 1982; Weigelt and Camerer 1988), defining the construct continues to be an important area of investigation (Barnett et al. 2006; Hillenbrand et al. 2012). Results from both a narrative assessment (Wartick 2002) and a systematic review of the reputation literature (Walker 2010) have found that the most commonly used definition in the image literature comes from Fombrun (1996, p. 72) who defined it as: "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 other leading rivals." It is clear that the "overall appeal" inherent in a reputation is intended to include not only financial indicators (market performance, dividend yield, and profitability) but also nonfinancial factors like corporate social responsibility: "economic performance is not the only basis on which to assess firms. Firms serve multiple stakeholders, each of which applies distinct criteria in evaluating corporate performance" (Fombrun and Shanley 1990, p. 234).

A key component to this definition is that reputation is described as the *aggregate* perception of all stakeholders (Brown and Longsdon 1997; Wartick 2002), where aggregate is taken to mean the sum total of

all stakeholder perceptions (Fombrun 1996). The notion of an aggregate perception is important to differentiate reputation from the related concepts organizational identity (based on internal stakeholders) and organizational image (based on external stakeholders), as reputation is meant to be the perception of both internal and external stakeholders together (see Walker 2010). Yet this notion of an aggregate perception poses a number of problems conceptually and operationally (Wartick 2002).

Some of the challenges that result from conceptualizing reputation as the sum total of all stakeholders' ratings are evident in the observations that: (1) different stakeholders may weigh criteria differently when ascribing reputation to a firm (e.g., investors may weigh profitability over ethicality, whereas the general community may be opposite) (Rindova et al. 2005; Sjoval and Talk 2004; Wartick 2002); and (2) firms may have differing reputations based on different criteria (e.g., a firm may have a strong reputation based on profitability but a poor reputation based on ethicality). For example, Wal-Mart's overall reputation might be rated as high based on its impressive profitability record, but this may be off-set by concerns over some of the factors that are thought to contribute to their strong profitability, including the treatment of their suppliers and employees. Accordingly, it should come as little surprise that Wal-Mart has a good reputation with customers and investors but a tough reputation with suppliers (Deephouse and Carter 1999) and has been widely criticized because of its practices of paying wages below the poverty line and offering limited to no health care for employees (*Fortune* 2006, August). The example of Wal-Mart illustrates the difficulty in attempting to combine these often competing views based on differing criteria into a single aggregated (sum-total) measure of reputation. Thus, in line with Lewellyn (2002), this study contends that two fundamental oft interrelated questions to any definition of reputation are: (1) reputation according to whom?; and (2) reputation according to which criteria?

Taken together, such concerns point to the problematic nature of the idea of a single "overall" measure of reputation. Is it reasonable to assume that a broader cross-section of stakeholders (e.g., Wall Street, Main Street, and Backstreet), rating various types of organizations, balancing a broad range of criteria (e.g., financial, ecological, and social) could come up with a meaningful aggregate measure of reputation? There are good reasons to believe this is not possible. For example, noting the lack of stakeholder-specific empirical research, Gabbioneta et al. (2007) examined a single stakeholder group, security analysts, and found that their reputational assessments were sensitive to issues particularly relevant and applicable to themselves, such as governance issues.

Similarly, Cable and Graham (2000) found that the criteria used by job seekers to assess corporate reputation differed from those of corporate executives. Likewise,

Reuber and Fischer (2010) proposed that the relationship between discreditable actions and reputational loss would be moderated by the extent to which stakeholders had outcomes tied to such actions. That is, the effect on reputation would change based on the personal impact perceived by stakeholders. Indeed, as pointed out by Wartick (2002), defining reputation as an aggregate perception and measuring it correspondingly loses reputational information per stakeholder group. Given that different stakeholder groups are likely to have self-serving interests that influence their perceptions of a firm's reputation (Rindova et al. 2005; Sjoval and Talk 2004), we should not expect individual stakeholder groups' reputation perceptions to conform to one another. An aggregate measure sacrifices information per stakeholder group in favor of a collective perception that is unlikely to have unanimity. This may be troubling given that reputation information per stakeholder group would lead to better informed and more appropriate empirical conclusions (Walker 2010). These difficulties in conceptualizing reputation are also reflected in how it has been operationalized in research. Reputation has been measured in a variety of ways, including: by market share (Fang 2005); rankings by students (Cable and Graham 2000; Turban and Greening 1997); rankings by recruiters (Rindova et al. 2005); winning contents (Rao 1994); and a content analysis of media data (Deephouse and Carter 2005). Despite this variability, by far the most commonly used measurement of reputation is *Fortune's Most Admired Companies*' (FMAC) (Basdeo et al. 2006; Fryxell and Wang 1994; Waddock 2000; Walker 2010).

Notwithstanding its popularity, FMAC has always been subject to a high level of criticism from researchers (for a comprehensive criticism see Deephouse 2000). In light of the two fundamental questions—reputation for whom and for what (Lewellyn 2002)—the use of FMAC to operationalize reputation is problematic for at least two reasons. First, the particular stakeholders used to develop the FMAC reputation measure—executives, directors, and analysts—represent a narrow group of mostly financially interested stakeholders (put differently, *Fortune* does not directly seek the input of stakeholder groups like community members, customers, employees, suppliers, unions, green activists, nor the media). Not surprisingly then, FMAC reputation ratings are highly correlated with organizational financial performance, a problem commonly referred to as the “financial halo” effect (Brown and Perry 1994). The apparent focus of FMAC ratings on reputation in terms of profitability may have little correlation to other aspects, such as a firm's ethicality or social responsibility (of course, depending on the goals of a particular study, this may not present a problem). In sum, it has been argued that the FMAC measure of reputation is problematic because it seems to emphasize only one dimension of reputation (the financial dimension, although it should be noted that it has recently added social responsibility as one criterion) and because it is based on input from a fairly limited group of societal stakeholders (financial analysts, investors, and

executives). Of course, we are not the first to recognize these concerns. For example, almost 20 years ago, Fombrun and Shanley (1990, p. 235) noted that “since different publics attend to different features of firm's performance, reputations reflect relative success in fulfilling the expectation of multiple stakeholders (Freeman 1984),” it then follows that the reputational ratings of “homogeneous evaluators . . . would be irrelevant and epiphenomenal.” Even though Fombrun and Shanley (1990, pp. 254–255) themselves use an aggregationist approach based on FMAC data, they conclude their study by calling for future research to examine: “Do firms have one reputation or many?” and specifically call for research that examines whether reputations vary significantly by audience (e.g., consumer and employees).

The inherent problems we have just discussed in both the definition and operationalization of reputation suggest that there may be merit in defining and measuring reputation differently than has been done in the past (Bromley 2002; Fombrun et al. 2000; Gardberg 2006; Gardberg and Fombrun 2002). Although the problems we have delineated have previously been identified (Lewellyn 2002; Walker 2010; Wartick 2002), and others have begun to develop measures to overcome these problems (particularly the work on the reputation quotient—Fombrun et al., 2000; Gardberg 2006; Gardberg and Fombrun 2002), we know of no *empirical* evidence that has tested and supported the logic of the “anti-aggregationist” argument.

3. Hypothesis development

Even though the most commonly used definition for reputation suggests that an organization's reputation is based on the aggregation of a *variety* of stakeholders (i.e., the “sum-total” of “all of its key constituents”), in practice reputation research has for the most part been based on ratings by investors and industry analysts (as is the case with the heavily used FMAC) (Walker 2010). The implicit argument supporting this FMAC operationalization seems to be that these are the professionals with the greatest expertise to render such reputation ratings. Although this may be true, we suspect that reputation scores would be different if they reflected the input of a wider variety of stakeholders (e.g., owners as well as employees, customers, neighbors, and the larger community).

In order to justify the use of FMAC (or any other measure based on a narrow set of stakeholders) on its own as a reasonable measure of reputation, researchers should demonstrate that the reputation ratings of the FMAC stakeholders (i.e., the opinions of executives, directors, and analysts) are comparable with those of other stakeholders, such as employees, customers, and the community. Supporters of FMAC might argue that differences across stakeholder groups would be minimal, for example, perhaps because FMAC evaluators will already weigh the different criteria when creating their

own reputation rating. Or perhaps they might argue that any differences would cancel each other out in a systematic way, so that the overall aggregate score would vary in the same relative direction whether based on one or on three (or more) distinct stakeholder groups. The counterargument, reflected in our first hypothesis, is based on the idea that, in their evaluations of organizations, stakeholders have their own self-serving criteria (Rindova et al. 2005; Sjovald and Talk 2004). For example, employees are likely to evaluate the reputation of a company based on pay, benefits, and working conditions, as these factors have the greatest impact on them. In contrast, shareholders are likely to evaluate the reputation of a company based on its profitability, effectiveness, and efficiency, as these factors have the greatest impact on them. Although not necessarily opposing, these differing concerns for employees and shareholders often tend to conflict with one another. Thus, we can expect the reputational evaluations to conflict. For example, investors criticize Costco for its employee-friendly practices and unwillingness to clearly place shareholders as a more important stakeholder than employees (Cascio 2006). In contrast, Wal-Mart is perceived as treating their shareholders well and their employees poorly, making it popular among investors (Dyck and Neubert 2010). As such, the reputation ratings of Costco and Wal-Mart are likely to differ between employees and shareholders.

Hypothesis 1: There will be differences across stakeholder groups in their ratings of firms' reputations.

Reputation is most often defined as an amalgamation of a number of criteria, such as profitability, social responsibility, and ethicality (Fombrun 1996; Walker 2010; Wartick 2002). Put differently, reputation refers to something that includes, but goes beyond, profitability. With this in mind, we designed a test where we sought to see if a firm's reputation would increase when managers made decisions that reflected corporate socially responsibilities, rather than having a primary focus on profit-maximizing responsibilities alone. Toward this end, we drew from a Weberian typology that distinguishes between two types of corporations (Dyck and Schroeder 2005; Weber 1958). We label the first type Primary Focus on Profit (PFP) firms, which are characterized by their emphasis on maximizing profits, efficiency, productivity, and shareholder value. According to Weber, PFP companies are characterized by their relatively high emphasis on materialism and individualism. We label the second type corporate socially responsible (CSR) firms, which are characterized by their emphasis on balancing multiple forms of well-being (financial, social, ecological, spiritual, aesthetic, etc.) for multiple stakeholders (owners, employees, customers, and community). CSR companies act in ways that protect and improve the welfare of society over and above the owner's financial self-interests (Hart 1995). Consistent with research

suggesting that CSR can improve corporate reputation (e.g., Brammer and Millington 2005; Fombrun and Shanley 1990; Lee et al. 2009; Rowe 2006; Stuebs and Sun 2010; Waddock 2000; Williams and Barrett 2000), and given the multidimensional nature of the concept of reputation that goes beyond financial criteria, we would expect stakeholders to rate the reputation of CSR firms more highly than PFP firms.

This would be especially true for employees, customers, and community members who are often more concerned about social issues than owners (Anand, 2002; Godfrey 2005; Turban and Greening 1997). One possible exception to this pattern might come from owners who may be most likely to question the very idea that CSR is truly responsible. Especially salient for members of this stakeholder group may be arguments by the likes of Friedman (1970), who posited that anything besides profit maximization is irresponsible and that investing in social responsibility means taking valuable and limited resources away from a company's main goal of efficient and effective productivity. Accordingly, from the perspective of owners, we might expect lower reputation ratings as firms' social responsibility increases. Therefore, we hypothesize the following:

Hypothesis 2a: Employees, customers, and community members will rate the reputation of "Corporate Social Responsibility" firms more highly than that of "Primary Focus on Profits" firms.

Hypothesis 2b: Owners will rate the reputation of "Primary Focus on Profits" firms more highly than that of "Corporate Social Responsibility" firms.

By definition an organization's reputation is based on multiple criteria (i.e., "the firm's overall appeal") (Fombrun 1996). Even so, we know of no empirical research that deliberately measures whether there are differences among stakeholders in terms of individual contributions made by the various criteria that combine to form an organization's "overall appeal," despite longstanding calls for such research (e.g., Fombrun and Shanley 1990).

An argument suggesting that researchers should examine differing criteria is consistent with the idea that different stakeholders will tend to emphasize different criteria when rating the reputation of a firm (Rindova et al. 2005). For example, Costco is known for its employee-friendly practices; CEO James D. Sinegal insists that paying employees well is simply "the right thing to do" (Holmes and Zellner 2004, p. 77). This is likely to enhance its reputation for ethicality among employees. At the same time, Costco's unwillingness to clearly place shareholders as a more important stakeholder than employees is likely to harm its reputation for profitability among shareholders and investors, who say: "At Costco, it's better to be an employee or a customer than a shareholder" (Holmes and

Zellner 2004, p. 77). Profitability focused measures of reputation, such as FMAC, may fail to take into account (or may even penalize) Costco for its desire to treat employees well. At the same time, employees who rate Costco's reputation might emphasize its ethical treatment of employees but downplay its ability to turn large profits.

An argument against examining different criteria is based on the assumption that, even though stakeholders may have different interests and concerns, in the final analysis their overall rating of reputation will be similar. For example, just as there are likely to be differences among the criteria used by three instructors in grading a paper—for example, one grader may be more interested in its grammar, a second in its theoretical development, and a third in its methodology—in the final analysis each expert grader will come up with similar ratings. If this is the case, then we are quick to acknowledge that the extra effort required to look at a variety of criteria used to rate reputation may be superfluous.

However, before we can dismiss such detailed analyses as redundant, it behooves researchers to demonstrate that examining the way stakeholders utilize a variety of criteria does in fact offer little value-added information. In contrast to arguments suggesting that stakeholders will use differing criteria for rating reputations similarly, our final hypothesis is consistent with the argument that stakeholders have differing concerns and subsequently will weigh reputational criteria differently. Specifically, we look at two criteria: the ethicality and profitability of a firm.

Hypothesis 3: When rating firms' reputations, the relative emphasis placed on the criteria of ethically and profitability will differ for different stakeholder groups.

4. Method

4.1. Sample

The questionnaire-based research took place at a mid-size Canadian university and used students as the sample ($N = 389$). The use of students as a sample for exploratory research is consistent with past studies in this journal (e.g., Stearns et al. 2006). The data were gathered in nine sections of two different first-year classes all taught during the same semester. Participation in this research was voluntary and took place during class time. To ensure that students across the classes (an Introduction to Business and a Business Communications course) were not different from each other, we compared the nine sections across several demographic factors, presented in the results section of this article.

4.2. Questionnaire

We developed a short, two-page questionnaire to test our hypotheses. Participants were randomly assigned

to one of four stakeholder groups (owners, employees, customers, and community members) and were asked to adopt the perspective of their assigned stakeholder group to rate the reputation (on a 7-point Likert-type scale, where low = 1 and high = 7) of four well-known real-world organizations (Wal-Mart, Costco, Starbucks, and McDonald's) and of three fictive organizations described by a short scenario on the survey instrument (Hypothesis 1). Firms were differentiated based on those that place relative emphasis on profits versus corporation social responsibility (Hypothesis 2). In addition to asking for the reputational rating of each firm, participants were also asked to use a 7-point Likert-type scale to rate each firm in terms of its ethicality (disgraceful ethics = 1 and admirable ethics = 7) and profitability (threatens the financial viability of the firm = 1 and maximizes profit = 7) (Hypothesis 3).

We included both real-world and fictional firms in the survey instrument because each comes with methodological benefits and limitations. In rating the reputations of real-world firms, we wanted to tap into participants' longer term history and accumulation of observations of specific firms, an important element in corporate reputation. By developing scenarios of three fictive firms (though based on real-world firms), we were able to control more carefully that participants were examining both PFP and CSR firms (however, we thereby compromised the longer term nature inherent in building a firm's reputation, which we tried to address by stating in the questionnaire that the actions described in the scenarios were representative of how the particular firm was managed).

The real-world firms included Wal-Mart and McDonald's (PFP-type firms) and Costco and Starbucks (CSR-type firms). These were selected because Wal-Mart and McDonald's are often depicted as profit-maximizing firms with minimal concern for other stakeholders, and Costco and Starbucks are well known for their relatively positive treatment of employees, customers, and community members (Cascio 2006; Dyck and Neubert 2010; Holmes and Zellner 2004).

In the manipulation of the types of fictional corporations, we provided students with one of two variations for each of the three companies. In particular, some students were provided with a scenario consistent with a PFP approach—characterized by a primary emphasis on the twin hallmarks of materialism and individualism (e.g., Weber 1958 orig. 1904; Dyck and Schroeder 2005; Ferraro et al. 2005; Giacalone and Thompson 2006)—and other students were provided with a different scenario that was consistent with a CSR approach—characterized by a low emphasis on materialism and individualism. For example, one scenario, based on the Malden Mills case, describes a company that has a devastating fire casting the jobs of 2,000 workers in jeopardy because it creates an opportunity for the company to follow the lead of other manufacturers who have relocated their factories to

Mexico in search of lower labor costs. In the PFP variation of this scenario (high emphasis on both materialism and individualism), the company relocates to Mexico. In the CSR variation of this scenario, the company decides to rebuild at the current site. Although these scenarios describe specific actions taken by a firm, the instructions explicitly indicated that the scenarios described managerial decisions typical of how the particular company was run. Students were randomly assigned to receive the PFP variation of one firm and the CSR variation of another firm.

5. Results

We begin the results section by discussing a pilot study to examine our manipulation of the fictional PFP- and CSR-type firms, followed by an investigation of the similarities and differences in the demographics of the student sample, and then proceed to test each of our hypotheses in turn.

5.1. Pilot Study

We ran a pilot study where we pretested our scenarios for the fictional companies to ensure successful differentiation between the PFP- and CSR-type firms. In the pilot study, students ($N = 123$) were asked to rate the firms in terms of how materialistic and individualistic they were (following Weber 1958 typology). As expected, these results indicated that the PFP (materialism: $M = 5.98$; individualism: $M = 5.84$) and CSR (materialism: $M = 3.14$; individualism: $M = 2.90$) type firms were significantly different in the expected direction, with the PFP-type firms having higher materialism, $t(1, 122) = 15.85$, $P < 0.001$, and individualism, $t(1, 122) = 14.80$, $P < 0.001$. Accordingly, we used the fictional firms in our final study.

5.2. Demographics

Looking at the demographic characteristics of the sample, we found that students in the nine sections did not differ in terms of age, gender, ethnicity, English as a first language, employment status, number of hours worked per week, or number of employers (all P s > 0.05). The declared major of the students in the Introduction to Business course, however, was significantly different from that of the students in the first year Business Communications course, $F(1, 389) = 153.34$, $P < 0.001$. As a second-term course, 96 percent of the students in the Communications course were business or economics students, but as a requirement for other faculties, only 54 percent of students in the Introduction to Business course were business or economics students (the remaining students were 22 percent arts, 14 percent engineering, and eight percent science). As well, number of years of postsecondary education was significantly different between the Introduction to Business course ($M = 1.74$) and the

Business Communications course ($M = 1.05$), $F(1, 398) = 17.89$, $P < 0.001$.

In addition, to ensure that students across the four different instructors were not different from each other, we compared the nine sections across several demographic factors and, consistent with the above, we only found differences between major, $F(3, 382) = 51.98$, $P < 0.001$, and years of education, $F(3, 391) = 6.36$, $P < 0.001$.

To ensure that none of these demographic differences could account for our findings, we examined whether the results varied by course section for all hypotheses that were tested. We found no differences, thus the results we report include students from all sections.

5.3. Common Method Variance

Given the single source of our data, a common methods bias was possible. To reduce the potential of this effect and aligned with recommendations provided by Podsakoff et al. (2003, p. 888), we informed all participants that their responses were anonymous and that there were no right or wrong answers. Furthermore, a Harman one-factor test was conducted, and results showed the presence of more than one factor with no single factor accounting for the majority of the variance, suggesting that a common methods bias was unlikely (Carlson and Kacmar 2000; Podsakoff et al. 2003). Lastly, we examined multiple models to test the model fit and while we did see a small improvement in the method factor, none explained a high percentage of method variance (Carlson and Kacmar 2000). Thus, these tests suggest that common methods bias is not a problem in this study.

5.4. Hypothesis Testing

To test our hypotheses, we used a mixed model analysis with random assignment to stakeholder perspective (owners, employees, customers, or community members) as the between subjects variable, and type of firm (PFP and CSR) as a within subjects variable. Given our earlier discussion about real-world versus fictional firms, we wanted to be sure that the results were consistent between them. When the data were analyzed separately, that is, real-world firms separate from the fictional firms, the results for the hypotheses were consistent with the results when the real-world and fictional firms were combined. Thus, for parsimony, we here present the combined results only.

Hypothesis 1

Consistent with our hypothesis that there are differences across stakeholder groups in their ratings of firms' reputations, our results indicate that the main effect of stakeholder perspective was significant, $F(3, 2302) = 28.82$, $P < 0.001$. To probe this result further, we used the least significant difference adjustment and

found that reputation ratings between stakeholders were all significantly different from each other (all $P < 0.001$, with the exception of employees and community members, $P < 0.01$, and customers and community members, $P < 0.10$).

In addition, we created a composite group of stakeholders (employees, customers, and community members) to compare this group ($M = 5.03$) with owners alone ($M = 5.58$). We found significant differences in the stakeholder specific reputation ratings between these two groups, $F(1, 2687) = 74.103$, $P < 0.001$. We also compared the reputation ratings of “owners-only” ($M = 5.58$) to “owners + employees + customers + community members” ($M = 5.19$) and found significant differences in the stakeholder specific reputation ratings between these two groups, $F(1, 3428) = 42.67$, $P < 0.001$. This suggests that the owners’ perspective does not represent the aggregated views of a variety of stakeholders, where aggregate is operationalized with or without owners included. Taken together, our findings support Hypothesis 1.

Hypothesis 2

As hypothesized, the main effect of type of firm was significant, with the CSR type rated as having significantly higher reputations ($M = 5.54$) than the PFP type ($M = 5.06$); $F(1, 2302) = 75.22$, $P < 0.001$. The interaction between stakeholder perspective and type of firm was also significant, $F(3, 2302) = 15.63$, $P < 0.001$. Looking at the significant interaction, a comparison of the means showed that all stakeholders individually rated the reputation of CSR-type firms higher than PFP-type firms. We further tested these mean differences for statistical significance using a one-way analysis of variance. First, we looked at the three stakeholder groups mentioned in Hypothesis 2a and found that the results for two of them lend support to the hypothesis. For employees, we found that the CSR-type firms ($M = 5.43$) were rated as having significantly higher reputations than the PFP-type firms ($M = 4.46$), $F(1, 511) = 58.97$, $P < 0.001$. Similarly, for customers, we found that the CSR-type firms ($M = 5.74$) were rated as having significantly higher reputations than the PFP-type firms ($M = 5.00$), $F(1, 590) = 48.93$, $P < 0.001$. Lastly, for community members, we found no significant differences between the reputation ratings of the CSR ($M = 5.29$) and the PFP ($M = 5.15$) types of companies ($P = 0.21$).

We performed a similar analysis for owners, in order to test Hypothesis 2b. For owners, we found no significant differences between the reputation ratings of the CSR ($M = 5.69$) and the PFP ($M = 5.62$) types of companies ($P = 0.46$). Taken together, we obtained partial support for Hypothesis 2a (employees and customers rated the CSR-type firms as having significantly higher reputations but community members did not) but no support for Hypothesis 2b (no significant difference between the reputation ratings according to owners between the PFP and CSR firms).

Hypothesis 3

The third hypothesis stated that there would be differences across stakeholder groups in the importance of the ethicality and profitability criteria in their respective reputation ratings. To test this hypothesis, we used a regression analysis to examine, for each stakeholder group, how much variance in a firm’s reputation score was explained by the ethicality criterion and the profitability criterion (as determined by the ratings on the profitability and ethicality scales). As stepwise regression was used, non significant criteria were automatically excluded by SPSS (IBM Inc., Chicago, IL, USA). The profitability criterion explained a significant amount of variance in the reputation ratings for three of the four stakeholder groups: owners ($P < 0.001$), customers ($P < 0.001$), and community members ($P < 0.01$). The ethicality criterion explained a significant amount of variance for each of the four stakeholder groups (all $P < 0.001$).

Consistent with our hypothesis, Table 2 shows that for each stakeholder group, the criterion of ethicality explains a larger amount of variance in reputation than the criterion of profitability. Similarly, Table 2 also presents the reputation ratings when all participants are amalgamated across stakeholder groups. That is, we summed all the stakeholder specific reputation ratings as Fombrun (1996, p. 72) suggests in his definition of reputation as the “overall appeal of all stakeholders.” Although both ethics ($P < 0.001$) and profits ($P < 0.001$) explained a significant amount of variance, as determined by the standardized coefficients (0.512 for ethics compared with 0.110 for profits) and the change in the F -statistics (924.55 for ethics compared with 44.19 for profits), ethics explained a much greater proportion of the variance in reputation.

Thus, we obtain support for Hypothesis 3, with a much greater proportion of the variance in reputation ratings being explained by the criterion of ethicality than by the criterion of profitability.

6. Discussion

Summary

Our data provide support for the contention that researchers studying image need to be more deliberate in identifying which stakeholders’ perspective they are examining, and what reputational criteria are being considered. For parsimony, in this study, we examined four stakeholder groups (owners, employees, customers, and community), two types of corporations (PFP and CSR), and two criteria (ethicality and profitability). Our results suggest that researchers cannot generalize reputation ratings across stakeholders and that the reputation ratings of owners are particularly non representative of other stakeholders (Hypothesis 1). We found that the reputation of firms with a primary focus on profits was rated lower than firms with corporate social responsibility (for employees and customers, but not for owners and community members; Hypothesis 2),

and that all stakeholders placed greater emphasis on the criterion of ethicality than the criterion of profitability for rating a firm's reputations (Hypothesis 3).

In the remainder of the discussion, we consider the implications of the importance of ethics in corporate reputation, general implications for how corporate reputation is defined and measured, and how owners may constitute a special case of stakeholder.

Contributions to Scholarship

Given the results of this study, defining reputation as a "firm's overall appeal to all of its key constituents" (Fombrun 1996, p. 72) and operationalizing it as such is problematic because it seems near impossible to aggregate both the differing stakeholder opinions and the differing criteria from which reputation ratings may develop. Potential solutions like weighing the different responses present their own problems, such as determining which stakeholder group should be given greater or lesser weight (Wartick 2002).

Simply put, reputation is unlikely to be merely the sum of the differing stakeholders and criteria. We understand that the idea of a single reputation rating per individual firm may be very appealing because: (1) the operationalization of reputation becomes much simpler (as opposed to garnering ratings for each stakeholder group and calculating it per criterion); (2) this makes it easy to rank and compare companies, and (3) in general, it makes the discussion of reputation much simpler. However, as research in reputation becomes increasingly complex and developed the limitations of a single overall reputational rating may soon make such ratings increasingly rare in the literature. This is not to suggest that researchers need to collect reputation ratings from each stakeholder group on every possible criterion, but researchers should clearly state from which stakeholder groups' perspective the ratings were determined and based on which criteria.

We suggest that, rather than simply aggregating stakeholder ratings or focusing on one stakeholder group (usually owners) but generalizing to all (and overlooking criteria other than profitability altogether), reputation ratings should be discussed separately in order to draw meaningful and convincing conclusions from research. This suggestion is aligned with research that has chosen to focus on corporate reputation from the perspective of a single stakeholder group. For example, Cable and Graham (2000) examined the antecedents for reputation looking at one stakeholder group, job seekers, and they investigated one specific criterion: employability. Similarly, Bendixen and Abratt (2007) examined the ethical reputation of buyers from the perspective of relevant suppliers. It may be necessary for scholars to examine corporate reputation from the perspective of one specific stakeholder group on one specific criterion. Others may wish to look at one stakeholder group and use multiple criteria. In any case, for researchers wishing to generalize across criteria and stakeholder groups, the

burden of proof is on them to convince readers that such generalization is justifiable, as is the case in an industry to industry generalization for example.

Therefore, future research should be specific regarding the particular definition and measurement(s) used. For example, if the study is measuring profitability from the perspective of shareholders, the definition of reputation might be adapted from Fombrun (1996) and written as: "A perceptual representation of a company's *profitability* that describes the firm's appeal to *shareholders* when compared with other leading rivals." This definition very clearly answers the questions reputation according to whom and for what. That said, although we should proceed cautiously with this, our findings may suggest that we may be able to aggregate *some* stakeholder groups. That is, the results between some of the stakeholders were similar. For example, employees and customers both rated the reputation of the CSR firms significantly higher than the PFP firms. The ability to aggregate some stakeholder groups may prove to be a valuable methodological contribution for future studies. Future research might identify which stakeholder groups can be aggregated and under what conditions (e.g., specific criteria, industries, particular organizations). This may lead to some combination of the disaggregation approach suggested in this article, while retaining some of the aggregationist ideas evident in most of the existing reputation research (see reviews by Walker 2010; Wartick 2002). However, our results also demonstrate that aggregating reputation perceptions is much more complex than has been assumed in the past. In particular, although we found some similarities between employees and customers, they also differed in their reputation ratings (Hypothesis 1) and in the importance of profits to their ratings (Hypothesis 3). Therefore, researchers must be very cautious and specific when aggregating across even similarly perceived stakeholder groups. In any case, the fact that the reputation perceptions of owners were significantly different from the reputation ratings of a composite group of stakeholders (employees, customers, and community members, either individually or added together) indicates that using the reputation ratings of owners to represent all stakeholders (as has been done in FMAC) is particularly problematic. In addition, it may give an indication of the difficulties managers face in trying to develop, improve, and maintain their corporate reputations in the face of conflicting stakeholder demands.

A key finding that emerged from this exploratory study was the significance of ethicality to the reputation ratings of all stakeholders examined. Much of the research in reputation has assumed that profitability is the primary criterion of importance to all stakeholders (Walker 2010; Wartick 2002). Our study has shown that profitability was not even of significant concern to employees, and across all stakeholders was of less importance than ethics. This would tend to indicate that

researchers must consider ethics as an important criterion when examining corporate reputation, regardless of which stakeholder(s) is examined. If it is true that reputation is the single most important asset that a firm has (Hall 1993; Gibson et al. 2006; cf. Brown and Perry 1994; Deephouse 2000; Fombrun 1996; Fombrun and

Shanley 1990; Roberts and Dowling 2002), and if the ethics criterion is more important than profitability to the reputation perceptions of all stakeholders, then this has significant implications for the future of both ethics and reputation research. In particular, it places ethics front-and-center in the study of the organization's most important asset. Ethics are not some optional "add-on" with marginal value-added to the practical concerns of business—rather ethics are integral to the reputation (and presumably financial success) of the organization.

Arguably, the most provocative implication of our study is that business ethicists may serve as particularly valuable stakeholders to measure corporate reputation. Presumably ethicists would be most attuned to the ethical performance of various organizations. Based on the results of our study, this information may be far more salient in measuring reputation than the knowledge about financial profitability held by investors/owners, a stakeholder group that currently plays the most prominent role in reputation research. Indeed, the data suggest that business ethics is a particularly appropriate discipline to further deepen our understanding of the most important asset an organization can have.

Applied Applications

Our finding about the relative importance of ethicality for building corporate reputation makes a valuable contribution not only to researchers (how is reputation conceptualized and measured) but also to practitioners (what can be done to enhance reputation). Given the high emphasis on this criterion of ethicality for all stakeholders in this study, some managers attempting to improve their corporations' reputation may wish to place higher significance on ethics within their company than they have in the past. Furthermore, profitability was a significant and important criterion in the reputation perceptions of all stakeholders except employees, and in no case, were the coefficients for profitability or ethicality negative. We might, for example, have expected profitability to have had a negative effect on the reputation ratings of community members, but in fact the opposite was true. Future research could examine this in more detail, as it might be possible for managers of corporations with strong reputations among owners/shareholders, to increase their focus on ethicality in an attempt to improve reputation among employees, customers, and community members (and our results would say among owners as well), without negatively affecting their reputation among owners.

Limitations and Future Research Directions

This study suffers from a number of limitations, all of which suggest future research opportunities. First, we

used a sample of undergraduate management students and asked them to assume the role of a particular stakeholder. The results of our participants may not be representative of actual owners, employees, customers, and community members. However, given the differing self-serving interests between these stakeholder groups, and that actual stakeholders would be more familiar with what matters to them when rating the reputation of a firm, the results from our current study may be conservative and underestimate the differences between these stakeholder groups. In any case, this limitation points to the need to move past this exploratory study and to measure the perceptions of actual stakeholders. Future research is required to see whether our findings would be similar if participants were MBA students, employees, or other actual stakeholders.

Along similar lines, another promising methodological approach to provide richer measures of reputation would be to base it on in-depth analyses of one or more companies, similar to research conducted by Deephouse and Carter (1999). Such a study could gather reputational perceptions on specific criteria from all organizationally relevant stakeholder groups and would control for organizational type. As stated by Fombrun (1996, p. 396): "The better represented are *all* of a company's constituents in the reputational audit, the more valid is the reputational profile that is generated" (*italics in the original*).

Lastly, one aspect we did not explore was the possibility of differences between members *within* each stakeholder group. Just as community members may emphasize different criteria than investors, and customers may emphasize different criteria than suppliers, there may also be differences within each stakeholder group. For example, within a group like "investors," some "regular" investors may emphasize the profitability criterion that favor PFP firms, but a growing number of "socially responsible" investors may be placing greater emphasis on the ethicality criterion evident in CSR firms. There may also be different reputation ratings between senior and junior employees, or between regular and occasional customers, or between community members who live in the neighborhood versus those who live further away, and so on. We have shown that it is not appropriate to assume homogeneity in reputation perceptions between stakeholder groups. Future research may also determine the same within stakeholder groups.

7. Conclusion

Our empirical study suggests that stakeholders differ in how they rate firms' reputations, that CSR-type firms tend to be rated as having higher reputations than PFP-type firms, and that ethicality is of high importance to the reputation perceptions of all stakeholders. We also found that an aggregated reputation measure hides significant stakeholder-specific differences in reputation perceptions, and is not representative of all stakeholders.

One reason for the shortcomings of the aggregate measure is that stakeholders differ in the criteria they deem important when rating an organization. Had we used only an aggregate measure of reputation in this study, the reputational ratings of specific stakeholders would not have been well represented. Similarly, when reputation research is based primarily on the views of investors (e.g., FMAC), then views of other stakeholders are lost. By examining reputation per stakeholder, per organizational type, and per criteria, we were able to gain a richer and more nuanced understanding of the complexities of this construct.

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