A STRUCTURED APPROACH TO REPUTATION MANAGEMENT AS A CONTRIBUTOR TO CORPORATE REPUTATION PERFORMANCE AND FINANCIAL PERFORMANCE

A working paper

by ML Wepener, University of Stellenbosch Business School

2005

ACKNOWLEDGEMENT

One of the most difficult hurdles facing many a prospective PhD student is the daunting task of writing the Initial Research Proposal. This document must clearly outline the research intentions of the student and thus serve as the basis for further effective communication between the doctoral candidate and his/her study leader. In this second Working Paper in the USB Series, one of our PhD registrants, Marietjie Wepener, presents a good example of an Initial Research Proposal. It demonstrates the essential characteristics of a solid literature search and then subsequently outlines the envisaged path of the intended study. Furthermore, a well-prepared doctoral proposal of this nature establishes a sound foundation for the research that will follow. We thank Marietjie for her effort and trust that this paper will encourage others in their endeavour to experience the satisfaction of embarking on the long journey to a PhD.

Prof Hein Oosthuizen
Head: Doctoral Programmes

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*"In today's world, where ideas are increasingly displacing the physical in the production of economic value, competition for **(reputation)** becomes a significant driving force, propelling our economy forward. Manufactured goods often can be evaluated before the completion of a transaction. Service providers, on the other hand, usually can offer only their **(reputations)**."*

– Alan Greenspan, chairman of the US Federal Reserve, 2000, Harvard University

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1. INTRODUCTION

1.1 Background and aim of study

What does corporate reputation entail? Does a strong positive reputation lead to business success? Can a positive reputation be created and managed in a structured way? And, if so, how?

The main aim of the study is to investigate whether a structured approach to corporate reputation management exists in South African JSE-listed companies operating in the services sector and, if so, how it is managed by these companies. The following will be investigated:

- Firstly, the financial performance of companies in the services sector according to certain well-known ratios will be determined.
- Secondly, the study will investigate whether there is a difference in the reputation management behaviour of companies with a good financial performance versus those with a poor performance, and what these differences entail.
- Thirdly, the phenomenon of corporate reputation will be investigated, and the corporate reputation of companies in both the top and bottom groupings will be measured among members of two of their key stakeholder groups.
- Finally, the relationship between corporate reputation performance and financial performance in these service companies will be investigated.
- The study aims to prove that it is possible to predict which reputation management practices (a structured approach) by organisations has a positive impact on corporate reputation performance and financial performance.

Thus the main outcome of the study is the development of a basic model for the effective management of corporate reputation by laying down best practices that will impact positively on both corporate reputation and financial performance (See Figure 1).

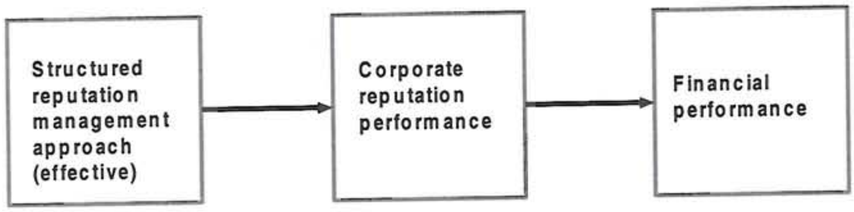

Figure 1: The impact of a structured reputation management approach on corporate reputation performance and subsequesntly on financial performance

1.2 Working definitions

A host of diverse definitions exists for the construct of *corporate reputation*. A long list of concepts is used synonymously with, or in close relation to, the term *corporate reputation*, namely identity, image, prestige, goodwill, esteem and standing. From the marketing domain, concepts such as corporate brand, corporate branding, corporate-level marketing and brand equity can be added (Balmer & Greyser, 2003; Wartick, 2002).

For the purpose of this study, *corporate reputation* is defined by the researcher as the overall esteem in which an organisation is held by its key stakeholders when compared with rival organisations. It is the net result of past behaviour, achievements and performance, and is a reflection of future expectations. It is shaped by both rational and emotional responses over time through direct and indirect experiences with the organisation, and is influenced by the degree to which the organisation's values are in harmony with those of the stakeholders.

Davies (2003: 99, 176, 255) and others (e.g. The Corporate Reputation Chain [online]) conclude that reputation management is a long-term strategic issue. A structured approach would emphasise both rational and emotional elements.

Corporate reputation management in the context of this study is about meeting the organisation's strategic and financial goals by pro-actively building and maintaining a positive corporate reputation with all its stakeholders through relationships with its key stakeholder groups.

For the purpose of this study *financial performance* is measured in terms of the following: 1) growth in market capitalisation, 2) growth in total assets, 3) growth in equity, 4) return on equity, 5) return on assets, 6) growth in sales, and 7) price earnings of organisation versus price earnings of its sector.

1.3 Prior research and development in the field of corporate reputation

By the end of the 20th century a number of leading academics and practitioners had reached the conclusion that corporate reputation was one of the cornerstones of a successful business. Corporations had begun to see reputation in a new light and recognise the necessity to build and sustain a favourable reputation to create competitive advantage. Today, there is general agreement that corporate reputation is a critical management issue of strategic importance (Dowling, 1994; Fombrun, 1996; 2000; Gotsi & Wilson, 2001a; Larkin, 2003; Marconi, 2001; Nakra, 2000; Sherman, 1999a).

The interest and developments in the field of corporate reputation can be explained partly by the current tendency to focus more sharply on the corporate brand, whereas in the past the product brand was regarded as all important. Stakeholder groups are no longer interested only in the desirable attributes of products, but have become more and more concerned about the corporations that produce them as social institutions – in other words, the companies behind the brands. The corporate brand, along with its reputation, has become a weapon in competitive strategy, corporate leadership and market success, especially in the services sector (Davies, 2003; Dolphin, 1999; Fombrun, 1996; Kitchen & Laurence, 2003; Proctor & Kitchen, 2002).

There is a realisation that a favourable reputation has a positive impact on bottom-line profitability. Several studies have shown a link between a strong reputation and superior financial performance (Roberts & Dowling, 2002; Ruth & York, 2002; Davies, 2003). The importance of corporate reputation becomes more apparent when one looks at the difference between the market value and book value of companies. It is estimated that intangible assets – a large part of which is ascribable to reputation – constitute more than 50 percent of the market value of companies, a percentage that has grown steadily over the last 40 years (Larkin, 2003; Fombrun, 1996; 2000).

Apart from its strategic value and contribution to financial success, a favourable corporate reputation is seen to have several other built-in benefits. Among these are that it signifies the quality of products and services, is a major factor in consumer choice, and serves as a cushion of goodwill allowing organisations to enjoy benefit-of-the-doubt status in times of crisis. An example of the latter benefit is the cushioned effect experienced by Johnson & Johnson at the time of the Tylenol crisis in the 1980s. In short, reputation influences stakeholder attitudes and behaviour – particularly those of employees, shareholders, trade partners, professional peers, suppliers and others (Argenti, 2003; Balmer & Greyser, 2003; Cravens, Oliver & Ramamoorti, 2003; Davies, 2003; Fombrun, 1996; Fombrun, 2000; Herbig & Milewicz, 1995a, 1995b; Larkin, 2003; Lewis, 2001; Smythe, Dorward & Reback, 1992).

The importance of corporate reputation in the corporate world of today is strikingly evident when one sees the public focus on the multitude of prominent reputation-related surveys and rankings. *Fortune*'s annual survey of America's Most Admired Companies (MAC index) is the world's best known measure of corporate reputation and image. The *Financial Times* has a similar survey (Europe's Most Respected Companies). In a recent annual survey by MORI – Britain's Captains of Industry – CEOs view financial performance as less significant and other factors relating to reputation as more important. In the *Chief Executive Magazine*'s Hill and Knowlton Corporate Reputation Watch survey, 96 percent of CEOs indicated that they believed reputation to be a very important issue (Argenti, 2003; Hutton, Goodman, Alexander & Genest, 2001; Klein, 1999; Larkin, 2003).

Some authors regard reputation management as a new discipline, with the focus mainly on building strong reputations with key stakeholders with the purpose of eliciting favourable behaviour that comes as a result of strong long-term relationships with these groups. Reputation management originates from, or forms part of the public relations function, or corporate communication(s), as it is more readily called in recent years. Large corporations have come to realise that they need to manage their reputations carefully in order to survive. They are held accountable for their overall behaviour by a variety of stakeholder groups. These key groups therefore need to be carefully and well managed (Frost & Cooke, 1999; Hutton, *et al.*, 2001; Larkin, 2003; Nakra, 2000).

1.4 Context, research focus and contribution

In today's world where corporate governance and ethical behaviour are highlighted, not only the product or service, but also the organisation behind the product or service has become extremely important. The corporate brand, and the health of its reputation, has become an all important factor in business survival and success, especially in the services sector. This research focuses on the reputation of the corporate brand and the maintenance thereof.

The literature study done as part of this initial research phase shows that a large amount of research has already been done on corporate reputation in general and particularly in large corporates. However, there is a gap regarding reputation studies focusing on the services sector, which is worth investigating.

Several instruments have been developed to measure corporate reputation in organisations, and these will be adapted for the specific context described above. The heavy emphasis that has been placed in the past on the financial dimension of reputation (e.g. the survey done by *Fortune*) is questioned, and all the dimensions that drive corporate reputation among different stakeholder groups further investigated.

This study will research the relationship between financial performance and corporate reputation in South African JSE-listed companies in the services sector from the perspective of two key stakeholder groupings, namely customers and employees. A better understanding of a possible relationship between corporate reputation and financial performance, especially in service organisations, will hopefully be achieved. This will help to convince senior management of large companies of the importance of reputation as a strategic asset.

Not much has been written on structured ways to address the challenge of reputation building and maintenance. The proposed study will focus on the reputation management process and the interface between companies and their key stakeholder groups – represented by company executives responsible for reputation-building activities and members of two key stakeholder groups, namely customers and employees. Customers and employees have been chosen as they are particularly important stakeholder groups in the services sector.

By measuring and analysing the key drivers of corporate reputation in service companies, more precise programmes for the improvement of their reputations with key stakeholders such as customers and employees can be designed. There is a need for research into organisations' relationships with their stakeholders and their current management of corporate reputation – although not necessarily named and recognised as such.

Academically, the study will refine the definition of the phenomenon of corporate reputation and contribute toward the theory of reputation-building practices with key stakeholders. On a practical level, the study will contribute toward the development of organisations' future strategies to build and maintain reputation. Before a strategy can be implemented with the objective to improve reputation, an organisation needs to know to which part(s) of its business each stakeholder group relates and responds. This research project will endeavour to describe and formulate the appropriate kind of attention that needs to be focused on the various stakeholders in order to elicit positive behaviour from them (e.g. support and loyalty from customers, productivity and loyalty from employees). It will also enhance companies' understanding of the phenomenon of corporate reputation, what this strategic asset can do for their long-term success and how it should be protected.

According to Money (2004), there are three areas in which a doctoral research project can contribute, namely theory, method and context. Such a project must show an extension in at least two of the three areas. It is foreseen that this project will contribute as follows (see Figure 2):

- Theory – development of a model for the management of corporate reputation in service organisations; refinement of the theory of corporate reputation (what it is, how it is created and what keeps it intact)
- Method – a combination of research approaches (positivistic and interpretivistic) and methodologies will be used (see pages 32-38)
- Context – the context of the research is the services sector in South Africa – the first time that reputation has been studied in this context.

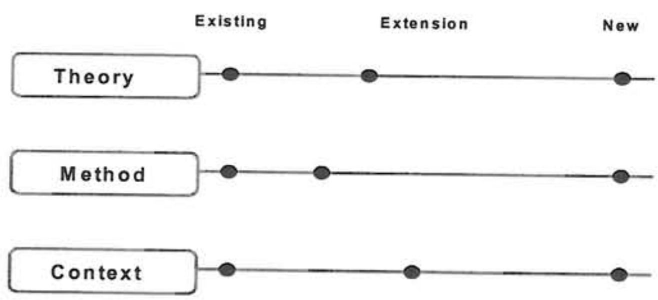

Figure 2: The three areas where a contribution can be made in research

Source: Money, 2004.

2. LITERATURE REVIEW

The literature review is a summary and critical assessment of the current theories and thinking in the relatively young field of corporate reputation. It reviews the literature and prior research in the field of reputation as well as reputation management practice.

2.1 Background – reasons for the growing interest in corporate reputation

2.1.1 The state of global corporate business

Corporate business has become the new world power. Of the 100 largest economies in the world, 51 are now corporations (Davies, 2003, 40). In the global knowledge-based economy, corporate reputation plays an increasingly important role. The realisation has dawned that corporate growth and longevity require much more than successful transactions. Added to that, corporate distrust is plaguing institutions – corporate reputation is under pressure, under scrutiny and under attack as a result of, among other things, accountancy crises, bad publicity, the power of the Internet, the power of communications, and consumer power (Davies, 2003: 40-41; Kitchen & Laurence, 2003: 104-105).

2.1.2 The rise of the corporate brand

In the past companies were known for their product brands. Today there is a significant move away from line branding towards corporate branding. The corporate brand has become a major discriminator in consumer choice, as opposed to just the attributes of products and services. Owing to the intangible nature of services, the corporate brand has become particularly important in the services industry. The development of the field of corporate reputation is a reflection of the fact that the interest in issues beyond the product and its associations has increased to the company behind the brand and product. The public reward "good" companies and punish "bad" ones (Caruana, 1997: 111; Davies, 2003: 53, 77-98; Kitchen & Laurence, 2003: 105, 112; Kitchen & Schultz, 2001: 10; Lewis, 2001: 32; Proctor & Kitchen, 2002:146).

2.1.3 The strategic importance of corporate reputation

Corporate reputation is an emerging business discipline, with its central theory that strong reputations result from initiatives that are in tune with the values and personality of an organisation and which are meaningful to key stakeholder groups.

Experts in the field of corporate reputation theory, e.g. Charles Fombrun (2000 [online]; 1996:11-32, 80) and Gary Davies (2003: 65-67), agree that corporate reputation is now an issue of critical strategic importance. The corporate brand and its reputation have become a weapon in competitive strategy, corporate leadership and market success. Also elaborating on this phenomenon are Dolphin (1999: 167), Bromley (2001: 318) and Van Riel, *et al* (1998, in Gotsi & Wilson: 2001b). A strong positive corporate reputation is described as a company's most valuable strategic asset. Having a strong reputation is vital to creating a sound commercial basis from which the success of the company will eventually stem (Davies, 2003: 65; Fombrun, 1996: 5; Roberts & Dowling, 2002: 1077-1079; *The corporate reputation chain* [online]).

2.1.4 The link between corporate reputation and financial performance

Several studies have been done that show a positive relationship between reputation and a strong financial performance or some other form of business achievement (Fombrun, 2000 [online]; Fombrun & Shanley, 1989, and Maathuis, 1993, cited in Van Riel, 1992: 3; Nakra, 2000: 37; Ruth & York, 2002: 14).

Cooper (1999, cited in Bennett & Kottasz, 2000: 224) suggests that between 8 percent and 15 percent of a company's share price may be ascribed to corporate reputation. Davies (2003: 215) agrees with this and says organisations can expect to add at least 3 percent and up to 7,5 percent per annum to their sales growth by improving their reputations. According to the *Wall Street Journal* (1999) the Reputation Institute proved that the companies with top corporate reputations in the United States of America (USA) also perform significantly better than others in terms of market share and share values (Kitchen & Laurence, 2003: 104). The Corporate Reputation Institute at the Manchester Business School found in detailed surveys since 1999 that corporate reputation will influence the financial health of any organisation, while for service organisations it will determine financial performance (*The corporate reputation chain* [online]).

2.1.5 Corporate reputation as an intangible asset

There has been a growing concern that the current way of reporting in financial statements does not give a clear and true picture of a company's state of affairs. The need is often expressed for the inclusion of intangibles to better reflect the real situation (Larkin, 2003: viii, 7-8; Cravens, *et al.*, 2003: 201-203).

Fombrun (1996: 11; 92) maintains that reputational capital is related to what accountants call "goodwill" and marketers call "brand equity". Reputational capital is the excess market value of its shares – the amount by which the company's market value exceeds its book value. See Figure 3 for Fombrun's model on where reputational capital fits into the picture.

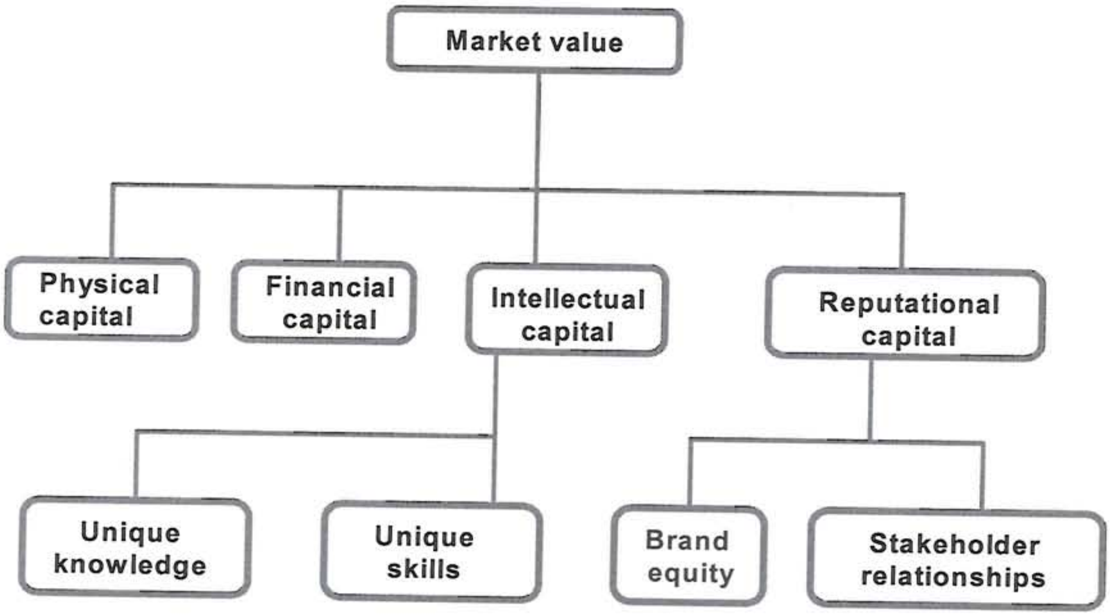

Figure 3: **Reputational capital as a subset of market value**
Source: **Fombrun & Van Riel, 2004: 33.**

Fombrun (1996: 90) concludes that one way of estimating reputational capital is to estimate the value of royalty payments over a given period. Licensing agreements are usually royalty rates for a corporate name and royalties on licences range between 5 percent and 15 percent, according to Davies (2003: 65-66), and 8 percent and 14percent, according to Larkin (2003: 8).

2.1.6 Benefits of a positive reputation

Most authors agree that a positive corporate reputation has several benefits for an organisation. The following is a summary of the most important benefits:

- **Quality of products and services** – reputation gives rise to perceived product/service quality.
- **New products** – a positive reputation results in shorter trial periods for new products.
- **New markets** – reputation opens doors to new markets.

- **Competition** – reputation reduces barriers to building competitiveness and market development.
- **Premium prices** – customers are less price-sensitive to products of companies with a good reputation.
- **Loyal customers** – a good reputation keeps customers loyal.
- **Employees** – reputation attracts and retains the best staff; it also results in higher productivity.
- **Increased sales and brand awareness** – sales and brand awareness are higher.
- **Value creation (investors/shareholders)** – a good reputation results in an increase in shareholder value.
- **Business partners** – reputation attracts the best business partners (e.g. suppliers).
- **All stakeholders** – reputation impacts on the attitudes of those that it depends upon for its success (customers, employees, shareholders, neighbours, trade and professional peers, suppliers and others).
- **Goodwill and crises** – reputations serve as reservoirs of goodwill (a form of insurance); companies with strong reputations face fewer risks when a crisis hits.
- **Purchases and suppliers** – companies with strong reputations pay lower prices for purchases.
- **Access to capital** – reputation ensures access to capital markets and the cost of capital is lower.
- **Regulation** – a good reputation minimises the threat of increased regulation or litigation.

(Argenti, 2003: 72-73; Caruana, 1997: 109; Chaloner & Brotzen, 2002: 13; Cravens, *et al.*, 2003: 203-205; Davies, 2003: 254; Dolphin, 1999: 97-99; Dowling, 1994: 17-18; Fombrun: 1996: 72-80; Greyser, 2003: 237-238; Haywood, 2002: 7, 175; Herbig & Milewicz, 1995a: 8-9; Kitchen & Schultz, 2001: 10; Kumar, 1999: 25; Larkin, 2003: 2; Roberts & Dowling, 2002: 1078-1079; Sherman, 1999a:10.)

2.2 Reputation surveys and research

2. 2.1 Surveys and rankings

The importance of corporate reputation becomes even more evident when one looks at the multitude of, and prominence given to, surveys and rankings done by major newspapers. These popular market surveys recognise the fact that a good reputation is a signal that informs stakeholders. Some measures used in business publications are regarded as "woolly"; their results nevertheless provide useful criteria to develop reputation management strategies and a good indication of which corporations are admired. The blame for inconsistency centres around the following (Davies, 2003: 71-72; Larkin, 2003: 5; Sabate & Puente, 2003: 162):

- Opinions of experts rather than of actual customers
- Use of multi-sector samples (degree of "activism" of stakeholders vary)
- Domination and multiplicity of financial performance measures (several measures)
- Diversity of reputation constructs
- The lagged effect of reputation on value creation and vice versa
- Inappropriateness of methodological tools.

While various media do corporate reputation surveys, the most well-known one is the *Fortune* magazine's annual poll of America's Most Admired Companies (MAC or AMAC). This is an extensive survey done among 6 000 to 8 000 business executives, directors and financial analysts, who rank the 1 000 largest companies in the USA and 25 largest subsidiaries of foreign-owned companies in the USA (10 companies in each of 32 industries) on eight dimensions (*Fortune* [online]). It was launched in 1984 and is the best known measure of corporate reputation today.

The Fortune survey is severely criticised for its heavy financial orientation and the fact that only senior executives are surveyed. Many authors say it is limited, biased, is not comprehensive enough, relies on idiosyncratic attributes and is devoid of a theoretical rationale. It is nevertheless widely used in numerous empirical works (Bennett & Kottasz, 2000: 226; Fombrun, 1996: 182-187; 2000 [online]; Mahon, 2002: 418; Sabate & Puente, 2003: 162; Sandberg, 2000: 5-6; Wartick, 2002: 371-392).

2.2.2 Reputation research – leading thinking in the field

Although several instruments have been developed to measure corporate reputation, authors mostly agree that various dimensions need to be refined.

The Reputation Institute is a global network of leading academics and practitioners that developed an instrument known as the Reputation Quotient (RQ) (also called the Harris-Fombrun Reputation Quotient) in 1998/1999 to measure the corporate reputation of large companies across industries and with several stakeholder groups, namely the general public, customers, corporate employees, general investors and consumer boycotters (Advancing knowledge...about corporate reputations [online]; Alsop, 2001 [online]; Fombrun, 2000 [online]); Fombrun & Foss, 2001a [online]; Reputation Quotient [online], 2003; Reputation Institute [online]). A total of 20 attributes in the following six dimensions are measured:

- Emotional appeal
- Products and services
- Financial performance
- Vision and leadership
- Workplace environment
- Social responsibility.

Davies (2003) also developed a model, called the Corporate Reputation Chain, to measure both what he calls the internal (identity) and external (image) aspects of reputation. Emotional dimensions are captured by measuring "corporate personality". Seven dimensions (the pillars of "corporate personality") are measured, each comprising a number of items. Measures of image and identity are compared with what correlates with customer and employee satisfaction. Satisfaction was considered very important and each of the dimensions correlated significantly with satisfaction for both staff and customers. The seven dimensions are:

- Agreeableness
- Enterprise
- Competence
- Chic
- Ruthlessness
- Machismo
- Informality.

The MORI Reputation Centre has pioneered reputation research in the United Kingdom (UK) since its inception in 1969. Over a thousand reputation studies on behalf of a variety of private and public sector clients were conducted. The Centre is concerned with an understanding of reputation and relationships with stakeholder groups. The research director is one of the leading experts in the reputation field, Stewart Lewis (The MORI Reputation Centre [online]).

Recently, Cravens, *et al.*, (2003: 202-209) have laid the framework for a new composite index of various scale weights, the Corporate Reputation Index, that allow standardisation in the measures rather than produce absolute quantitative values. Weighting measures may even change from year to year. They aim towards a reputation audit as a supplementary disclosure in financial reports, as none of the earlier indices, in their opinion, isolates all the comprehensive elements of corporate reputation. These authors envisage a set of composite measures that will be consistent across companies and industries. They have listed the following most important components of corporate reputation:

- Leadership
- Strategy
- Culture
- Innovation and value creation
- Products
- Employees
- External relationships
- Financial strength and viability
- Intangible liabilities.

2.3 Reputation and related concepts

2.3.1 Introduction – the family of concepts

The constructs of corporate identity, organisational identity, corporate image, corporate branding, corporate reputation, corporate communication and corporate-level marketing are interwoven and widely used in business language. Balmer and Greyser (2003: 3) call them the "family of corporate level concepts". To Wartick (2002: 371-380) it is "troubling" that other constructs and concepts are sometimes used synonymously with corporate reputation, namely identity, image, prestige, goodwill, esteem, and standing. This is especially true of identity, image and reputation.

2.3.2 Stakeholders

The multiple stakeholder perspective forms the platform for the current thinking in studies in corporate reputation. This differs from the marketing perspective in that all groups that have a vested interest in the organisation – and not only customers – are regarded as important. All stakeholders, but especially key stakeholder groups are important because their behaviour has an impact on the success of the business (Davidson, 2002: 85-87; Davies, 2003: 23, 58-59). See Figure 4.

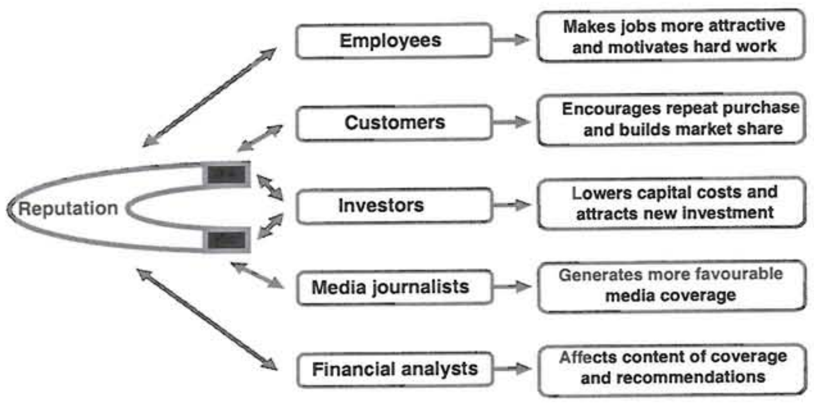

Figure 4: **How reputation influences the decisions that stakeholders make**

Source: **Fombrun & Van Riel, 2004: 5.**

In 1984 Freeman moved "stakeholders" to the forefront and broadened the view of management beyond profit maximisation to include the interests and claims of non-shareholding groups (Steyn & Puth, 2000: 189; Mahon & Wartick, 2003: 24-26). Some authors, such as Rindova and Fombrun (1999: 695-707), call these groups "constituencies" or "resource holders".

Groups of people are stakeholders when they are affected by decisions of or issues facing the organisation, or when their decisions affect the organisation, and include customers, employees, suppliers, distributors, shareholders, the media, legislators, pressure groups, and communities. Key or critical stakeholders are closely and immediately affected by actions and decisions of the organisation. These groups are more salient than others. Saliency is a function of urgency, legitimacy and power. There are also stakeholders who are indirectly affected, or for whom the effects are delayed, slight or even non-existent. Some stakeholders, e.g. the media will not have a direct experience with the organisation, but when issues arise other stakeholder groups will rely on them for information (Davidson, 2003: 85; Davies, 2003: 58-59; Steyn & Puth, 2000: 198; Mahon & Wartick, 2003: 25; Wartick, 2002: 378).

2.3.3 Corporate brand

Brand management has changed radically over the past two decades. Today branding has taken on a corporate perspective (Balmer & Gray, 2003: 972-979; Balmer & Greyser, 2003: 245-250; Dolphin, 1999: 14; Kumar, 1999: 25-33). According to Balmer and Gray (2003: 972-973), "...the concept of the corporate brand now enjoys wide currency in business parlance..."

Twenty years ago branding was concerned with only one group – consumers. Today, the corporate brand represents the interface between the organisation and its internal and external stakeholders. The corporate brand has to be relevant to, and has to meet the expectations of all key groups in order to foster meaningful and beneficial relationships (Balmer & Gray, 2003: 976; Burghausen & Fan, 2002: 98-99; Davidson, 2003 [online]; Einwiller & Will, 2002: 100; Simões & Dibb, 2001: 217-223; Troy & Master, 1998: 55).

King (2003: 264-266), who introduced the concept, predicted that in today's service economy the company brand will become the dominant discriminator in buying decisions. Consumers' choices will depend less on benefits of products and services, and more on the company behind the brand and the people behind the company. This is corroborated by other authors (Kitchen & Laurence, 2003: 103; Kitchen & Schultz, 2001: 10; Lewis, 2003 [online]: 1-5; Proctor & Kitchen, 2002: 144-147; Riley, 2000: 140-142).

According to King (2003: 266-270), the company brand requires a multidisciplinary approach. Brand is experienced through products and services, as well as through corporate and staff behaviour. The role of staff and culture in establishing, maintaining and manifesting corporate brand values is essential.

2.3.4 Corporate reputation

2.3.4.1 Definition and formation

Definitions of corporate reputation vary and terminology has yet to be standardised. According to Davis (2003: 57), corporate reputation is still a woolly concept – a "mixture of constructs". Included in the definitions of the construct of reputation we will find, more or less, the following elements:

- **It is historically rooted** – it is formed over time (Bennett & Kottasz, 2000: 225; Davies, 2003: 73; Dolphin, 1999: 97; Balmer & Greyser, 2003a: 177; Herbig & Milewicz, 1995a: 5; Mahon & Wartick, 2003: 22; Marconi, 2001: 70; Nguyen & Leblanc, 2001: 228).
- **It concerns all stakeholders** – it is of concern to all internal and external stakeholders, not only customers/clients (Argenti, 2003: 72; Fombrun & Rindova, cited in Balmer & Greyser, 2003f: 224).
- **An organisation has different reputations** – an organisation has different reputations with each of its multiple stakeholder groups or subcultures, because each group applies a different set of criteria or prioritises attributes in a different order (Bromley, 2001: 317, 332; Caruana, 1997: 110; Dolphin, 1999: 97; Fombrun & Van Riel, 1998: 230; Gotsi & Wilson, 2001a: 100; Klein, 1999: 33; Kumar, 1999: 25; Larkin, 2003: 42).
- **It is about an entity or person** – it is formed about an entity (e.g. an organisation or a product), or a person (individuals or groups) (Mahon & Wartick, 2003: 21-22).
- **It embodies perceptions and impressions** – it is contained in the perceptions, impressions, beliefs, feelings, opinions and/or knowledge that people have about a company – a state of mind that sits in the stakeholder's consciousness (Brotzen, 1999: 54; Fombrun, 1996: 59; Fombrun, 2000 [online]; Fombrun & Van Riel, 2003: 226; Griffin, 2002: 9; Larkin, 2003: 1).
- **It is both rational and emotional** – it consists of both rational and emotional elements; it can be either positive or negative (Larkin, 2003: 4; The corporate reputation chain, 2003 [online]).
- **It is based on past behaviour, achievements and performance** – it is based on the past actions/behaviour, achievements/qualities, and performance of organisations (Caruana, 1997: 110; Dolphin, 1999: 17; Fombrun, 2000 [online]; Frost & Cooke, 1999: 22-23; Oliver, 1997: 120).
- **It is a reflection of future expectations / predictability** – it is a reflection of expectations of how the business will act in future; it is based on the willingness and ability to perform repeatedly in a similar fashion; it is not about likeability, but predictability of behaviour; about the likelihood that the company will deliver valued outcomes to multiple stakeholders; that it will "fulfil marketing signals" (Herbig & Milewicz, 1995a: 5-6; Lewis, 2001: 31; Sandberg, 2002: 6; Whetten & Mackey, 2002:403).

- **It is the overall outcome** – it is the overall (collective, cumulative, net) outcome/result of past actions and realisation of future prospects (Caruana, 1997: 111; Davies, 2003: 63; Fombrun, 1996: 59; Frost & Cooke, 1999: 23).
- **It is an evaluation** – it is the estimation (evaluation) and esteem (respect) in which an organisation is held by its stakeholders (Fombrun, 1996: 59; Larkin, 2003: 1; Mahon, 2002: 418; Mahon & Wartick, 2003: 21); it is about how an organisation is evaluated in terms of reliability, credibility, trustworthiness and responsibility (Fombrun, 1996: 28).
- **It is about values** – it is a by-product of the harmony between a company's values and the values of the society in which it operates. If a company is out of step with the values of stakeholders regarding appropriate behaviour, it is unlikely to have a positive reputation (Dowling: 1994: 8-9; Sherman 1999a: 11).
- **It is formed as a result of complex interrelationships and exchanges (directly and indirectly)** – it is formed through direct and indirect experiences with the company and its brand, general perceptions on the character of the business, and other people's information and influence through social networks. Stakeholders often make decisions even before they come into contact with an organisation (Bromley, 2001: 317; Larkin, 2003: 1, 42; Mahon & Wartick, 2003: 23; Ryder, 2003: 23; Smythe, Dorward & Reback, 1992: 12, 44).
- **One has limited control over it** – it is independent of the entity it represents; an organisation has only limited control over its own reputation (Bromley, 2001: 320; Smythe, Dorward & Reback, 1992: 13; Mahon & Wartick, 2003: 22).
- **It is difficult to change, but it can be easily lost** – once formed, is it difficult to change; there is a drastic decline in peoples' openness to new information. Although a good reputation is quite durable, reputations can be lost in minutes through unfortunate action. Once lost, it is difficult to reclaim and takes time to rebuild (Alsop, 2001 [online]; Bromley, 2001: 320; Davies, 2003: 73; Herbig & Milewicz, 1995a: 10).

The definitions of a few leading authors in the field are given below.

Fombrun (1996: 72): A corporate reputation is a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals.

Dolphin (1999: 17): Reputation is the public esteem in which an organisation is held by its audiences; the "name" which (by repute) it has or does not have for its performance, service and products. The reputation of and regard for an organisation; how audiences/stakeholders feel about it.

Dowling (1994: 8-9): Reputation is the evaluation (estimation or degree of respect, esteem,) of an organisation's image by people. In other words, people attribute reputations by comparing what they think is important for the particular type of organisation. If the total impression of a company (i.e. image) fits with the person's values about appropriate behaviour for such a company, the individual will attribute a positive reputation. The term corporate reputation thus has a more intuitive derivation than the term corporate image.

Gotsi and Wilson (2001b: 29): Corporate reputation is stakeholders' overall evaluation of a company over time. The evaluation is based on stakeholders' direct experiences with the company, and other forms of communication and symbolism that provide information about the firm's actions and/or a comparison with the actions of other leading rivals.

For the purpose of this study, *corporate reputation* is defined by the researcher as the overall esteem in which an organisation is held by its key stakeholders when compared with rival organisations. It is the net result of past behaviour, achievements and performance, and is a reflection of future expectations. It is shaped by both rational and emotional responses over time through direct and indirect experiences with the organisation, and is influenced by the degree to which the organisation's values are in harmony with those of the stakeholders.

2.3.4.2 Drivers of positive and negative reputation

A study by Fombrun and Shanley (Fombrun, 1996: 392-395) pointed out certain strategic factors and corporate practices to be drivers of a positive reputation:

- Differentiation
- Diversification (strategic factors)
- Image-making
- Identity-shaping (corporate practices)

Greyser (2003: 239) lists the following six key drivers of corporate reputation:

- Competitive effectiveness (high calibre management, investing strategically in R&D, financial strength)
- Market leadership (industry leadership, well-differentiated products, being in touch with today's marketplace)
- Customer focus (good value for money, committed to customers, clearly defined image)
- Familiarity/favourability
- Corporate culture (high ethical standards, recognised social responsibility, high quality employees)
- Communications (effective advertising, sponsorship of major events).

According to Fombrun (1996: 62-72) stakeholder groups each have different needs and expectations which act as drivers of overall reputation:

- Reliability (important to customers)
- Credibility (important to investors and suppliers)
- Trustworthiness (important to employees)
- Responsibility (important to communities).

Fombrun and Van Riel (2004) developed a model (Figure 5) of the drivers (dimensions) of reputation after the perceptions of numerous key stakeholder groups of companies were measured by means of the Reputation Quotient (RQ):

- Products and services
- Emotional appeal
- Social responsibility
- Vision and leadership
- Financial performance
- Workplace environment.

Stewart Lewis (2003 [online]) identifies the following drivers:

- Quality of products/services
- Financial performance
- Treatment of staff
- Social responsibility
- Environmental responsibility
- Leadership.

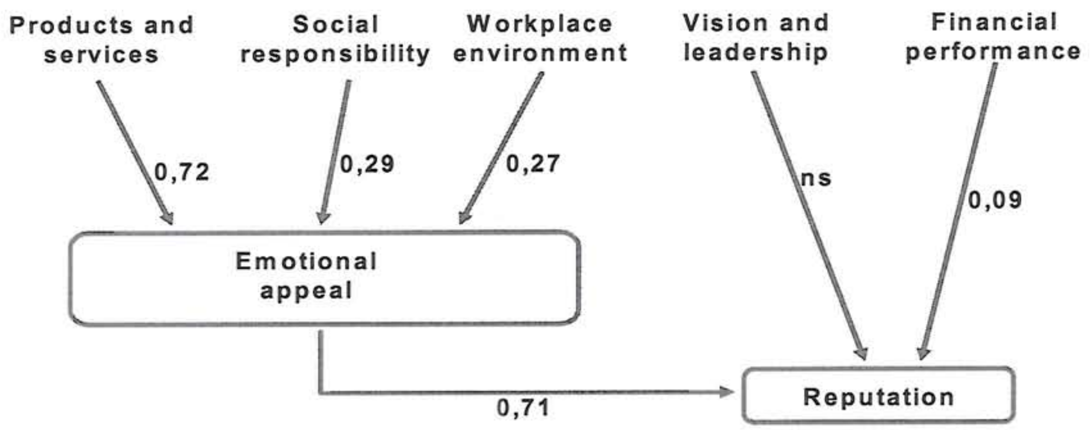

Figure 5: **The drivers of reputation, according to Fombrun and Van Riel**
Sourse: **Fombrun & Van Riel, 2004: 59.**

Research by the MORI Reputation Centre and *Fortune* magazine identified the following drivers (Sherman, 1999a: 10):

- Financial performance, profitability and long-term investment value
- Standing and behaviour of the CEO and senior management team
- Quality of products and services
- Treatment of staff by the organisation
- Social responsibility activities
- Customer service
- Ability to communicate with stakeholders.

According to Greyser (2003: 240-241), there is a negative impact on reputation when company behaviour runs against public expectations and credibility questions arise. Wilson (2003: 18) adds the following negative factors:

- Deceptive marketing practices (not delivering what is promised)
- Dubious integrity and behaviour of senior executives
- Insufficient attention to social consequences of organisational decisions and behaviour
- Media coverage (biased coverage and negative publicity)

- Unethical behaviour of board of directors
- Questionable integrity and behaviour of CEO
- Misleading financial reporting
- Unethical business practices by accounting firms
- Misleading communication to stakeholders regarding business performance
- Inappropriate executive compensation.

2.4 The management of corporate reputation

2.4.1 Introduction and history

There is growing consensus that the "value" of a company is more than just the numbers on the asset sheet or the "goodwill" represented by the brand equity of its products. Other intangibles come into play, including the persona, integrity and behaviour of the CEO and the nature of the interaction between a company and its stakeholders. These intangibles – it is believed – can be managed effectively (Griffin, 2002: 55).

Reputation management originates from the traditional public relations function, or corporate communication(s) as it is more generally called in recent years (Hutton, *et al*, 2001: 248). The 1980s ushered in a new era of public relations and corporate social responsibility with the effective handling of the Tylenol poisoning in 1983 by Johnson & Johnson. To quote Griffin (2002: 24): "This was an event which was to transform the need to manage one's reputation at a corporate level from being the occasional luxury of Fortune 500 players to being a necessity."

2.4.2 Rationale behind a structured approach to reputation management

Today there is a general mistrust of business, and companies are held accountable for their actions by stakeholder groups; not just for their marketing claims, but for their overall behaviour. In recent years widespread corporate financial and statistical manipulation was revealed, which heightened the need for accountability. A sound reputation increasingly depends on being seen to be in step with the expectations of society. Transparency to financial and other stakeholders has become an absolute necessity, and punishment for not complying can be severe (Einwiller & Will, 2002: 102-105; Griffin, 2002: 29-45; Larkin, 2003: 5-21; Nakra, 2000: 35-39).

In the "old economy" there were a few points of contact regulating information between the internal and the external sides of an organisation. It has now become difficult to distinguish clearly between the inside and the outside of an organisation. The proliferation of the Internet, e-mail and other technology eases continuous interaction with people. Disparate audiences find each other, exchange information, and agree to mutual agendas. These agendas can be antagonistic to business, and a company's reputation might be challenged through, for instance, the collection and publishing of information on the web. Pressure groups such as Greenpeace have the power to represent interests, and international non-governmental organisations (NGOs) can intimidate the consumer. The mood is one of anti-globalisation, anti-capitalism, pro-anarchism. This puts major reputations at stake and takes control out of the hands of corporations (Einwiller & Will, 2002: 102-105; Griffin, 2002: 28-44; Nakra, 2000: 35-39).

2.4.3 Elements of a corporate reputation programme

4.4.3.1 Overview

Some advocates see reputation management as a new guiding force or field/discipline, which is about building strong reputations and keeping them strong. Reputation management is about meeting the organisation's strategic and financial goals by building and maintaining a positive corporate reputation with all its stakeholders through relationships with these stakeholder groups. It is a process that needs to be pro-active rather than reactive in the face of crisis (Fombrun, 1996: 10; Frost & Cooke, 1999: 22; Haywood, 2002: 8-9; Kartalia [online]; Larkin, 2003: 2; Nakra, 2000: 40-42).

The essence of reputation management is not about image and does not lie in posturing, spin-doctoring, wordsmithing or self-congratulation (Fombrun: 2000 [online]; Fombrun & Foss: 2001c [online]; Foss: 2002 [online]). According to Davies (2003: 51-57), it is an evolving discipline and is becoming a senior responsibility, crossing traditional line and corporate functions (Fombrun & Van Riel, 2003: 230; Larkin, 2003: ix). Smythe, Dorward and Reback (1992: 5-8) conclude that organisations need to learn about what drives the decisions and behaviour of their stakeholders and take into account what these groups expect of them. It means creating a new "covenant" with stakeholders, which is more valuable and more difficult than managing image.

Davies (2003: 74-76) and *The Corporate Reputation Chain* ([online]) emphasise the importance of customers and staff in reputation management and says that the same emotional attachments satisfy and motivate both these groups. They are concerned with two things, namely image (of concern to customers) and identity (of concern to staff), which need to be harmonised (a symmetry has to be reached). This will provide rational and emotional links that can complete what he calls the "reputation chain". See Figure 6.

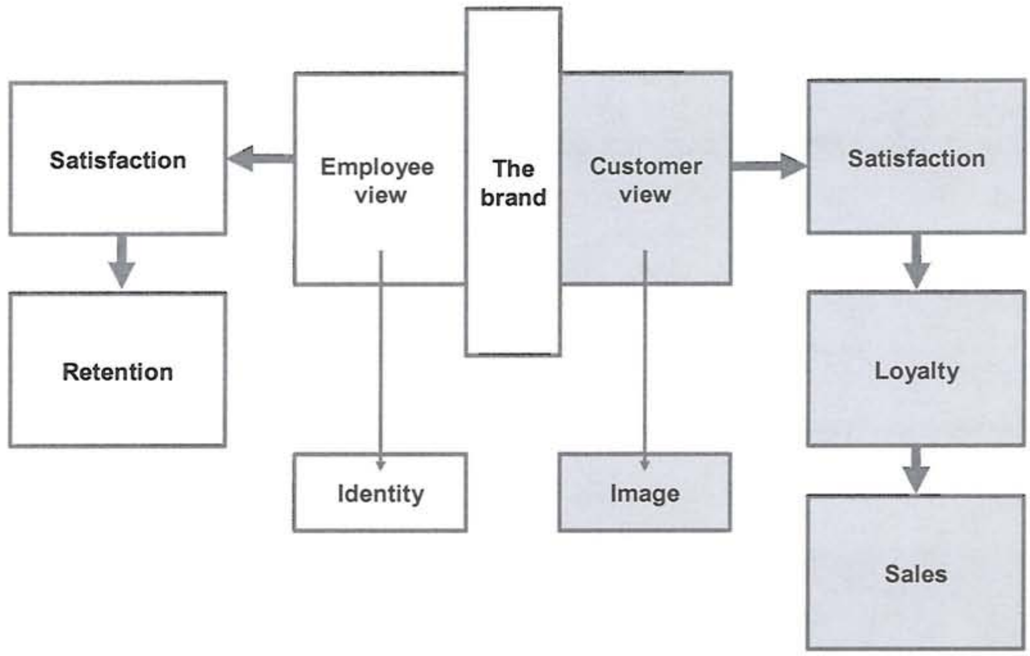

Figure 6: The Corporate Reputation Chain, according to Davies
Source: Davies, 2003: 204.

Davies (2003: 99, 176, 255; The Corporate Reputation Chain [online]) concludes that reputation management is a long-term strategic issue and not a short-term tactical one. Reputation is also not only about quality of goods and services, but how stakeholders feel about them. Therefore the management of corporate reputation is not only about using rational methods, but about enhancing the emotional attachment that stakeholders have with the organisation.

Fombrun and Van Riel (2004: 86-241) identify five principles of reputation management:

- **Visibility** – media visibility, disclosure of information about the company and engaging in dialogue with stakeholders is beneficial to a positive reputation.
- **Transparency** – companies must communicate broadly and allow stakeholders to see right through them; they must operate "in the bright light of day".
- **Authenticity** – the behaviour of companies must be real, genuine, accurate, reliable and trustworthy.
- **Distinctiveness** – companies should build reputation on a distinctive platform and stands for something.
- **Consistency** – consistency in actions and communications ensure strong reputations; companies must avoid proliferating images and branding.

2.4.3.2 Management of stakeholders

The management of relationships with stakeholders is integral to managing an organisation's reputation (Dolphin, 1999: 20-28). Relevant key stakeholders and strategic issues must be identified and evaluated. The organisation's standing with these stakeholder groups (including their perceptions, attitudes, and involvement) must be analysed. The aim is to gauge the consequences of the organisation's policies in respect of its relationship with these stakeholders. Williams (2002), in Larkin (2003: 41), explains the impact of stakeholder relations (Figure 7). Secondly, strategies have to be implemented that support the corporate strategy in establishing and enhancing the corporate reputation, to ensure a competitive advantage for the organisation (Steyn & Puth, 2000: 192-195).

Figure 7: **An explanation of why stakeholder relations matter**

Source: **Williams (2002) in Larkin (2003: 41).**

Key stakeholder groups can have competitive interests and different perceptions of an organisation. Therefore most companies find it difficult to unite stakeholders. This can be done through a strong vision that catches the imagination of all stakeholders, supported by an agreed set of strong values that will build consensus among groups and underpin brand promises (Argenti, 2003: 61; Davidson, 2003: 85-87).

2.4.3.3 Role of corporate communication

The corporate communication function in organisations plays a vital role in creating, preserving and enhancing corporate reputation (Post & Griffin, 1997, in Dolphin, 1999: 97). Determining how an organisation wants to be perceived by its different stakeholders and how it chooses to identity itself is the cornerstone function of corporate communication. Success will depend on effective two-way communication (of a unified message) with stakeholders (Dolphin, 1999: 72-74; Nakra, 2000: 42).

According to Steyn and Puth (2000: 192-198) corporate communication in an organisation has the function of managing relationships with stakeholders, as well as managing issues with the aim of minimising conflict. It involves strategic decision-making and the execution of two-way communication programmes with stakeholders. Communication management helps the organisation achieve its goals by identifying and building healthy relationships with strategic stakeholder groupings. The healthier the relationships, the more likely the organisation will be successful. Therefore relationships are no longer a nice-to-have, but a necessity. (Dolphin, 1999: 100; Oliver, 1997: 126; 157; Ströh, 1998: 30).

Dowling (1994: 12) has developed a model for reputation management of internal and external groups, where corporate communication plays a decisive role. Factors are tackled individually, factors responsible for the strengths and weaknesses in the current reputation are identified, strengths are used to gain more leverage for marketing and corporate communication and weak areas are isolated for immediate attention. (Figure 8).

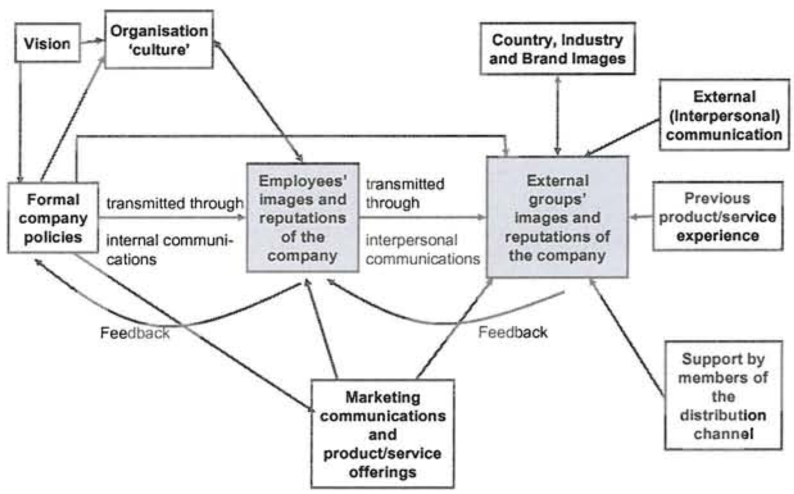

Figure 8: **Dowling's model of reputation management**
Source: **Dowling, 1994: 12.**

An important part of corporate communication management is to determine the internal identity strategy and the external image strategy, as well as the management of the interface with key stakeholders (Fombrun, 1996: 201; 278-279). Identity-building is the only part of reputation management that an organisation can control to a certain extent. An organisation with a strong corporate identity that represents its underlying reality, and is aligned with the images held by all stakeholders, will be rewarded with a strong reputation (Argenti, 2003: 76).

2.4.3.4 Persona, integrity and behaviour of the CEO

An organisation's reputation is often coloured by the reputation of the CEO (Dolphin, 1999: 100-101). According to Hill and Knowlton's annual survey of over 800 executive officers in Europe and North America, Corporate Reputation Watch 2002, 43 percent of a company's reputation is attributable to the CEO. The lack of trust in today's CEOs is one of the reasons for the breakdown in CEO/shareholder relationships. The CEO must provide a sense of direction for stakeholders and should be the guardian of reputation (Wilson, 2003: 18). Since 1997 Burson-Marsteller, one of the largest and best-known corporate communication consultancies in the USA, has measured the impact of the CEO on corporate reputation annually. By 1999 the CEO was held responsible for 45 percent of the corporate reputation – an increase of 14 percent over three years. Kitchen and Schultz (2001: 23-42) confirms this line of thought.

Miles and Davies (1997; in Davies 2003: 45) evaluated the management of reputation in 14 European and American companies and concluded that the responsibility for reputation management should lie with a senior person, and in smaller companies, with the CEO him- or herself. The Tylenol crisis is a textbook example of excellent reputation management where the CEO played a major role. The CEO of Johnson & Johnson successfully handled the crisis by immediately taking charge and managing the process (Davidson, 2003: 87).

2.4.3.5 Crisis management

Crisis management is closely linked to reputation management. A crisis is an event or series of events that can damage a company's reputation and, potentially, the company itself. A crisis occurs when the reputation of an organisation is threatened or harmed by bad media publicity, leading to loss of sales and profit and eventually to damage of the corporate reputation. Many things can be a threat to the reputation of an organisation, e.g. natural disasters, man-made disasters, product recalls, sabotage, fraud, product boycott, sudden and serious financial problems, and strikes (Davies, 2003: 99-101; Jackson, 1999: 48-51).

Investments in effective communication and reputation management before a crisis situation occurs are critical in conserving value (Knight & Pretty, 1997, cited in Larkin, 2003: 7). A good reputation is like having an insurance policy to provide protective cover for well regarded companies in times of intense pressure.

Summary: Corporate reputation leads to business success. But corporate reputation needs to be carefully managed through a structured programme. The review of the literature on corporate reputation and the relationship between reputation and financial outcomes did not provide definite answers to the questions whether there is a relationship between corporate reputation performance and financial performance, what the direction of the relationship is, nor under which circumstances the relationship exists in services companies. Neither is the literature clear on the most beneficial steps to be taken and activities to be pursued for a favourable reputation to emerge. More research is necessary to identity the key reputation drivers and their impact on corporate reputation and stakeholder behaviour, as well as the structured approach necessary to influence positive stakeholder behaviour. The aim of this study is to close the above-mentioned gaps, to identify the important factors impacting on corporate reputation, and develop a model for the business sector to optimise its reputation activities (programme). The methodology that will be used for this project is described in the following sections.

3 RESEARCH PROBLEM, RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

In the global economy of today, business success is no longer determined or described in terms of financial achievements alone. Today the market value of companies differs largely from the book value; the residue of the value being captured in intangibles. The value of intangible assets, of which reputation is an important one, has especially come to the fore during recent crises that hit financially successful companies (namely Enron, Andersen, WorldCom and Omnimedia). The creation, maintenance and protection of corporate reputation as an intangible asset have become critical. This applies particularly to service organisations that depend on intangibles like reputation to sell their offerings.

The main objective of the study is:

- To develop a model to manage corporate reputation effectively. The literature gives indications of good practices, but no model for the management of corporate reputation in service companies in the South African context has been developed.

The research problem of this study is:

- To determine the current corporate reputation management practices / behaviour (structured corporate reputation management approach) of both financially successful and less successful organisations. The fundamental dimensions, scope and composition of both typical successful and less successful corporate reputation management programmes will be determined. From this it is envisaged that it will be possible to make predictions whether certain practices / behaviour will have a positive impact on a higher corporate reputation score and eventually on financial performance.

In order to address the main research problem adequately, the following sub-problems will be addressed:

- The dimensions of corporate reputation will be studied in order to form a better understanding of this phenomenon.

- The study will determine whether a favourable and strong corporate reputation is positively correlated with financial performance in South African service organisations.

The following provisional research questions and hypothesis derive from the literature review and an assessment of the existing theory:

Research question 1:
Do the companies that are good (the best) financial performers have a similar approach to corporate reputation management? Are there dominating patterns?

Research question 2:

Do the companies that are poor (weaker) financial performers have a similar approach to corporate reputation management? Are there dominating patterns?

Research question 3:

Are there differences between the approaches to corporate reputation management (programmes) (dominating patterns) between the best- and worst-performing companies?

Hypothesis 1:

There is a correlation between the financial performance and the corporate reputation performance of South African JSE-listed services sector companies

Research question 4:

Can it be postulated that structured corporate reputation activities (programmes) have an impact on companies' corporate reputation performance and financial performance?

4 RESEARCH APPROACH AND METHODOLOGY

See Figure 9 for a summary of the methodological steps that will be followed in this study.

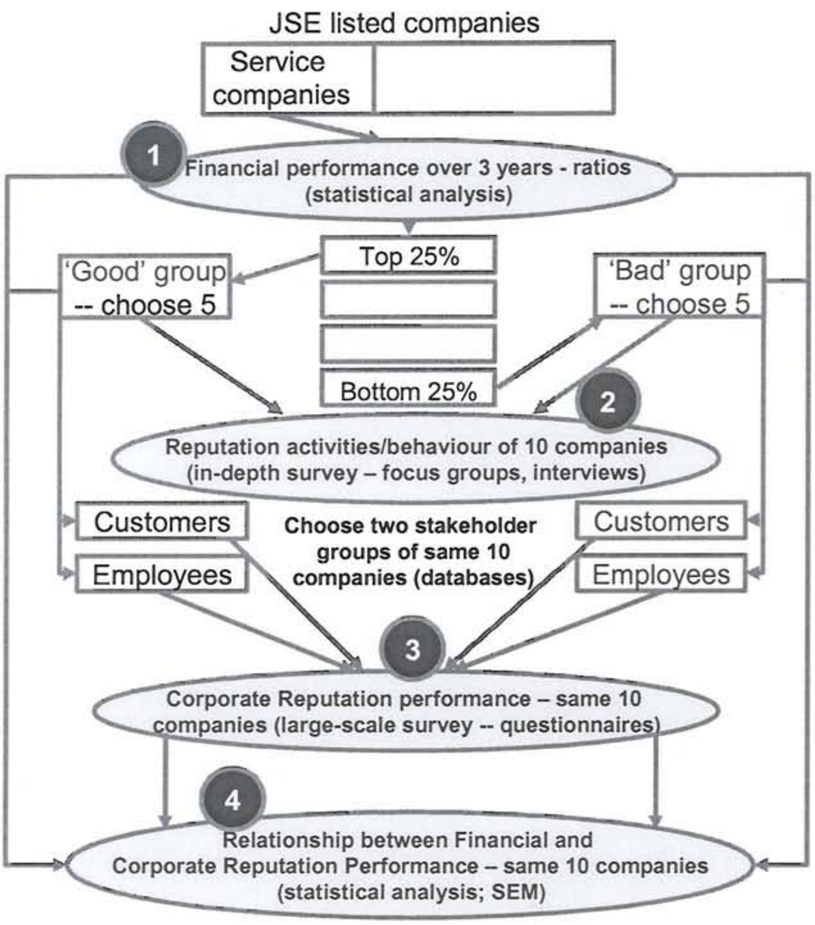

Figure 9: A summary of the methodological steps that will be followed in this study

4.1 Step 1: Financial performance measurement

Corporate reputation has become very important for the success of all companies, but this is especially true for companies in the services industry, because they have no tangible products to show that can build their reputations. Service companies generally have to rely on intangibles like their overall (corporate) reputation to sell their services.

The first part of the study will consist of a secondary statistical analysis of the financial data of all services sector companies listed on the Johannesburg Securities Exchange (JSE). The financial performance of these companies will be measured in terms of the following seven financial ratios over a period of three years:

- Growth in market capitalisation,
- Growth in total assets,
- Growth in equity,
- Return on equity,
- Return on assets,
- Growth in sales, and
- Price earnings: organisation vs sector.

Financial performance over a shorter period than three years will probably not provide a true reflection of a company's financial performance trend. It was therefore decided to measure financial performance over three financial years. Reliable databases will be used to extract these data.

It is recognised that financial performance alone is by no means an indication of total business performance, but it was decided to measure financial performance only to narrow down the study.

4.2 Step 2: Investigation into / measurement of corporate reputation practices (corporate reputation management programme)

This second part of the study will be conducted from an interpretivistic[1] stance because the researcher wants to develop an understanding of current corporate reputation practices in organisations.

The interpretivistic paradigm implies an inductive research approach[2] for this part of the study. The purpose of the research is both exploratory[3] and descriptive[4]. The study will be cross-sectional[5], where a total of ten cases

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[1] For the interpretivist part of the study the researcher will be more subjective, with the aim of experiencing the situation in depth. Generalisability is not crucially important. With this type of study it is necessary to discover the details of the situation to understand the subjective reality in order to be able to make sense of people's and organisations' motives, actions and intentions. (Remenyi, Williams, Money & Swartz, 1998: 35; Saunders, Lewis & Thornhill, 2003: 84)

[2] With induction theory follows data. The researcher begins with an individual case or cases and then proceeds to building a general theory. The inductive research approach is particularly concerned with the context in which practices take place. In inductive reasoning observations are made and patterns detected, which leads to the development of general conclusions, models or theories. Because an in-depth understanding is important a more flexible structure and the selection of a small sample is more appropriate. (Saunders, Lewis & Thornhill, 2003: 88-89; Trochim [online]; Welman & Kruger, 2001: 29)

[3] The objective of exploratory research is to formulate a problem, refine ideas, clarify concepts and explore practices.

[4] A descriptive research design describes characteristics or makes directional predictions.

[5] With a cross-sectional design, evidence is collected from more than one case at a single point in time on two or more characteristics under study. According to the literature cross-sectional studies are suitable for both qualitative and quantitative research. The objective is to detect and describe "correlations", patterns or associations. (Saunders, Lewis & Thornhill, 2003: 96)

(services companies) will be examined at a single point in time. As described in 4.1 above, the entire study will be conducted around companies in the services industry that are listed on the JSE.

For this part of the study (and for the following research phases) 10 companies will be selected according to the outcome of the first part of the research, namely the statistical analysis of the financial data of JSE-listed services sector companies. Five companies with a "good" financial performance will be selected from the top 25 percent of companies in this study, as well as five "bad" companies from the bottom 25 percent. The 10 cases will be selected according to the judgement[6] and convenience[7] of the researcher, as long as five come from the best group (top 25 percent) and five from the worst group (bottom 25 percent).

The unit of analysis is the reputation activities / behaviours of services sector companies. Firstly, the "typical elements" of a corporate reputation programme (current practice) will be obtained from secondary data by doing an extensive study of the existing literature. After this, evidence of the various elements of current corporate reputation management will be collected at the 10 companies described in the previous paragraph. The methods that will be used for this are in-depth surveys (semi-structured interviews)[8] and focus groups. Semi-structured interviews will be undertaken with individuals (e.g. CEOs) in the relevant divisions that are responsible for this function (heads of corporate communication, marketing and corporate affairs). The information will be triangulated with evidence from focus groups conducted with employees and customers.

Each entity's systems, processes, communication, activities, etc. will be compared with those of others. Correlations, patterns and associations will be investigated during these processes. The purpose of this is to establish whether there are certain patterns in the approaches followed by the "good" companies and those of the "bad" companies, as well as the typical differences between the two groups.

The evidence will be used to build a model for corporate reputation management. It is assumed that the majority of South African companies do not have an official "corporate reputation programme". They do, however, follow practices and have embarked on activities that can be regarded as typical elements of a programme that will enhance corporate reputation. They probably also have existing reputation-enhancing action plans called by another name, such as "promotions", "corporate communication", "marketing", "advertising" and "corporate governance". It is not likely that South African companies will yet have embarked on corporate reputation management programmes, called by that name, as do prominent companies in the USA and certain European countries.

4.3 Step 3: Corporate reputation measurement

The objective with this third part of the research project is to determine the esteem in which these companies are held by two of their most important stakeholder groups. This will be conducted from a positivist[9] stance.

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6 Purposive or judgmental sampling enables the researcher to select cases that will best enable him or her to answer the research questions, meet the objectives and are particularly informative. Such samples are, however, not statistically representative of the total population (in this case all services sector companies listed on the JSE) (Saunders, Lewis & Thornhill, 2003: 175).

7 Convenience sampling involves selecting those cases that are easiest to obtain (or willing to cooperate!). The trade-off made for ease of sample access is the representativeness of the sample. The information obtained could be a good source of data in exploratory research (*Convenience sampling.* [online]; Saunders, Lewis & Thornhill, 2003: 177).

8 With in-depth surveys (semi-structured interviews) detailed in-depth information is collected from a relatively small number of people or organisations. Note-taking and recording methods are used and a transcript of the discussions is compiled.

9 In the positivist paradigm the role of the researcher is that of an objective and logical external observer, focusing on facts and looking for generalisable laws. The researcher is objective and independent, and interprets data in an apparently value-free manner. There will be an emphasis on a highly structured methodology to facilitate replication and on quantifiable observations that lend themselves to statistical analysis. Samples of sufficient numerical size have to be selected for this study to ensure generalisation of data (Gill & Johnson, 1997; Remenyi, Williams, Money & Swartz, 1998: 32; Saunders, Lewis & Thornhill, 2003: 83).

This positivist ontological paradigm leads to a deductive research approach[10] and the collection of quantitative data. The purpose is descriptive and the research will be done cross-sectionally.

The five companies that emerged in the top 25 percent on financial performance and the five companies in the bottom 25 percent will be investigated, i.e. the same 10 companies researched in the second part of the study as described above (qualitative study of the corporate reputation programme). The target population is members of two key stakeholder groups (employees and clients) of these 10 companies. These two stakeholder groups have been chosen because they are important to all companies and are normally available as part of the databases of service companies. It is considered preferable to choose at least one internal as well as one external stakeholder group. It would have been ideal to research other stakeholder groups such as investors, financial analysts and boards of directors, but the customer and employee groups were chosen to limit the scope of the research project.

The method of data collection will be a large-scale survey (structured electronic questionnaires) to measure the corporate reputation performance of the 10 service companies. According to literature, the construct of corporate reputation is built up by a number of dimensions (themes). The eventual questionnaire will be developed from existing measurement instruments described in the most recent literature and adapted for the particular context (South African listed services sector companies) according to evidence that will probably become evident during the second part of the study (study of the composition of reputation programmes in South African (SA) companies). Pilot surveys will be done before finalising the instrument.

Data analysis will be done using descriptive and inferential statistics. Techniques will include regression analysis and factor analysis. Statistical modelling (e.g. structural equation modelling[11]) will be done to reflect the impact of the various drivers of corporate reputation.

4.4 Step 4: Relationship between financial performance and corporate reputation performance

Statistical modelling and analysis will be applied to determine the relationship between the financial performance and corporate reputation performance of the ten companies researched during the first and third parts of the study. The financial data over three years (obtained in the first part of the study) will be compared to the reputation data. This will be done because financial performance over a long period such as three years could have had an impact on the current reputation of the companies.

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[10] In deductive research one starts from the general to the more specific. A theory is the starting point and this is narrowed down to a more specific testable hypothesis. The hypothesis is expressed in operational terms, which propose a relationship between two variables. The operational hypothesis is tested and the outcome examined (analysed). The theory is confirmed or modified. (Trochim [online])

[11] Structural equation modelling (SEM) is a statistical technique similar to regression analysis. It is an efficient method for simultaneously fitting and estimation of a set of regression equations that represent a complex system. SEM is essentially used for two purposes: 1) To estimate the relationships between the unobservable constructs (e.g. corporate reputation) and the items (e.g. vision and leadership, workplace environment, financial performance, etc.) that are used to depict these constructs. This is referred to as the measurement model. 2) To use scores that estimate the unobservable constructs to estimate the coefficients of the structural model or path model.

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