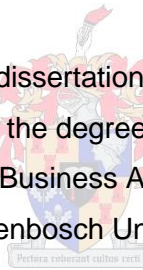# The development of a new instrument to measure client-based corporate reputation in the service industry

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Research dissertation presented
for the degree of
Doctorate in Business Administration
at Stellenbosch University

Promoter: Prof C Boshoff

Co-promoter: Prof E vdM Smit

Degree of confidentiality: A   December 2014

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Declaration

I, Marie Louisa Wepener, declare that the entire body of work contained in this research dissertation is my own, original work; that I am the sole author thereof (save to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

ML Wepener   August 2014

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Abstract

The link between a favourable corporate reputation and business benefits is well established. Most executives recognise the importance of a favourable corporate reputation in building a competitive advantage for their organisations. However, the measuring of a corporate reputation, particularly in the service industry, has remained problematic.

This study addresses this lingering gap in the literature and focuses on the development of an instrument to measure the client-based corporate reputation of organisations functioning in the service industry. This includes the identification of the factors (dimensions) that clients of large service organisations consider when they evaluate the reputations of organisations. Large organisations functioning in two sectors, the banking sector and the airline sector, were selected as the focus in this study.

Groundwork for the design of a reputation-measuring instrument included the clarification of key terms (e.g. corporate identity, corporate image, corporate brand and corporate reputation). It also included a review of corporate reputation from various perspectives (e.g. organisational studies, economics, strategy and corporate communication). It also included discussions on scale development and the various approaches to the conceptualisation and operationalisation of corporate reputation.

This study followed mainly a positivistic paradigm, involving quantitative methods. However, two qualitative methods were also used: a focus group discussion to identify patterns of thinking used by clients to assess corporate reputation and the expert-panel method to obtain the inputs of a panel of experts. Six large-scale surveys in three waves served as primary data sources. Large samples of the target population were used to obtain data that was statistically analysable. Secondary data sources included an extensive literature review.

To develop the measurement scale, a series of steps was used to refine, purify and replicate the instrument. The process started with an exploratory factor analysis and concluded with an invariance analysis. The data was analysed during three waves of data collection. A variety of statistical techniques was used to assess the construct validity of the proposed instrument, including unidimensionality, convergent validity, reliability, discriminant validity, nomological validity, model fit and invariance.

The outcome is a 19-item instrument using five dimensions to measure the client-based corporate reputation of large organisations in the service industry. These dimensions are *Emotional appeal, Corporate performance, Social engagement, Good employer* and *Service points*.

This study contributes to the existing literature by the development of a valid and reliable instrument that can be used to measure a service organisation's client-based corporate reputation before embarking on a reputation-enhancement programme.

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This study proposes that the measurement of an organisation's client-based corporate reputation is a crucial starting point to assess the gap between where it is and where it wants to be in terms of its corporate reputation, and to manage its reputation accordingly.

By using the proposed instrument, managers will be able to track their organisations' corporate reputation over time, both overall and at the level of the five dimensions separately.

Key words

client-based corporate reputation

construct validity

corporate performance

corporate reputation

emotional appeal

good employer

reputation

reputation management

reputation measurement

stakeholders

service industry

service organisations

service points

social engagement

Bestuursopsomming

Die verband tussssen 'n gunstige korporatiewe reputasie en die voordele daarvan vir organisasies is goed gevestig. Die meeste bestuurders erken ook die belangrikheid van korporatiewe reputasie in die bou van 'n mededingende voordeel vir hul organisasies. Die effektiewe meting van korporatiewe reputasie is egter, veral in die dienstebedryf, steeds problematies.

Teen dié agtergrond was die fokus van die proefskrif op die ontwikkeling van 'n instrument om die kliëntgebaseerde korporatiewe reputasie van organisasies in die dienstebedryf te meet. Dit sluit in die identifisering van die faktore (dimensies) wat die kliënte van groot diensteorganisasies oorweeg wanneer hulle organisasies se reputasies evalueer. Groot organisasies wat in twee bedryfsektore werksaam is, naamlik die banksektor en die lugrederysektor, is geselekteer as die fokus van hierdie studie.

Die grondslag vir die ontwerp van 'n reputasiemetingsinstrument het die verduideliking van sleutelterme (soos korporatiewe identiteit, korporatiewe beeld, korporatiewe handelsmerk en korporatiewe reputasie) ingesluit. Dit het ook die bestudering van korporatiewe reputasie uit verskillende perspektiewe (soos organisatoriese studies, die ekonomie, strategie en korporatiewe kommunikasie) behels. 'n Bespreking van skaalontwikkeling en die verskillende benaderings tot die konseptualisering en operasionalisering van korporatiewe reputasie het deel van hierdie aanvoorwerk gevorm.

Hierdie studie het hoofsaaklik 'n positivistiese paradigma gevolg wat kwantitatiewe metodes ingesluit het. Twee kwalitatiewe metodes is egter ook gebruik: 'n fokusgroepbespreking om die denkpatrone te identifiseer wat kliënte gebruik om korporatiewe reputasie te evalueer en die ekspertpaneelmetode om die insette van 'n paneel kenners te bekom. Daarby het ses grootskaal-opnames in drie golwe as primêre databronne gedien. Groot steekproewe van die teikenpopulasie is gebruik om data te bekom wat statisties analiseerbaar was. Sekondêre databronne het 'n omvattende literatuurstudie ingesluit.

Om die metingsinstrument te ontwikkel, is 'n reeks stappe gevolg om die instrument te verfyn, te suiwer en te repliseer. Die vertrekpunt was 'n verkennende faktoranalise en die proses is afgesluit met 'n analise van die invariansie. Die data is ontleed in drie datainsamelingsfases. 'n Verskeidenheid statistiese tegnieke – soos eendimensionaliteit, konvergerende geldigheid, betroubaarheid, diskriminante geldigheid, nomologiese geldigheid, modelpassing en invariansie – is toegepas om die konstrukgeldigheid van die voorgestelde instrument te evalueer.

Die uitkoms is 'n 19-item-instrument wat vyf dimensies gebruik om die kliëntgebaseerde korporatiewe reputasie van groot organisasies in die dienstebedryf te meet. Hierdie dimensies is *Emosionele aantrekkingskrag*, *Korporatiewe prestasie*, *Sosiale betrokkenheid*, *Goeie werkgewer* en *Dienspunte*.

Hierdie studie dra by tot die bestaande literatuur deur die ontwikkeling van 'n geldige en betroubare instrument wat gebruik kan word om 'n diensteorganisasie se kliëntgebaseerde korporatiewe reputasie te bepaal voordat 'n reputasieversterkingsprogram in werking gestel word.

Die studie stel voor dat die meting van 'n organisasie se kliëntgebaseerde korporatiewe reputasie 'n uiters belangrike vertrekpunt vorm vir die assessering van die gaping tussen waar die organisasie hom tans bevind en waar hy wil wees, en om hierdie reputasie dienooreenkomstig te bestuur.

Bestuurders sal met behulp van die voorgestelde instrument hul organisasies se korporatiewe reputasie oor tyd kan navolg – oorkoepelend, sowel as op die vlak van elke afsonderlike dimensie.

Sleutelwoorde

belangegroepe

diensbedryf

diensorganisasies

dienspunte

emosionele aantrekkingskrag

goeie werkgewer

kliëntgebaseerde korporatiewe reputasie

konstrukgeldigheid

korporatiewe prestasie

korporatiewe reputasie

reputasie

reputasiebestuur

reputasiemeting

sosiale betrokkenheid

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List of acronyms and abbreviations

AMAC	America's Most Admired Companies (survey)
ANZMAC	Australia-New Zealand Marketing Academy Conference
AVE	average variance extracted
BORO	Business Object Reference Ontology
CBR	Customer Based Reputation (scale)
CEO	Chief executive officer
CN	Critical N
CFA	confirmatory factor analysis
CPV	client perceived value
CSR	corporate social responsibility
ECVI	expected cross-validation index
EFA	exploratory factor analysis
GMAC	Global Most Admired Companies (survey)
ICIG	International Corporate Identity Group
IRT	item response theory
KMO	Kaiser-Meyer-Olkin (index)
MGT	multivariate generalisability theory
ML	Maximum Likelihood (estimation)
MORI	Market & Opinion Research International
MSA	Measure of Sampling Adequacy
PAF	Principal Axis Factor
RBV	resource-based view (of firms)
RMSEA	Root mean square error of approximation
RQ	Reputation Quotient
SEM	structural equation modelling
SPIRIT (model)	Stakeholder Performance Indicator Relationship Improvement Tool

CHAPTER 1

INTRODUCTION, RESEARCH PROBLEM AND OVERVIEW OF THE STUDY

'Lose money for the firm, and I will be understanding;
lose a shred of reputation for the firm, and I will be ruthless.'
– Warren Buffett

1.1   INTRODUCTION

This research study concerns the development of an instrument to measure the client-based corporate reputation of organisations doing business in the service industry. This process includes the identification of the factors (dimensions) that clients of large service organisations consider when they evaluate organisations and provide a 'reputation score' to these entities. It is assumed that the experience of clients with service organisations will influence the way these organisations are perceived and 'judged'.

This chapter outlines the nature and purpose of the study, and provides a guide to the structure of the dissertation. The chapter starts with a discussion of the background to the research problem, followed by the theoretical and conceptual frameworks of the study. The research problem, research goal, research questions, research design and methodology, the scale development process, scope and delimitations, definition of key terms and the structure of the dissertation are briefly explained. The chapter concludes with a discussion of the contribution that it makes to the body of knowledge, particularly in terms of managerial application.

1.2   BACKGROUND TO THE STUDY

There can be little doubt that having a favourable reputation yields significant benefits to business organisations, and that an unfavourable reputation can be harmful. Many organisations can attest to the latter, and it appears as if the reputation of some companies is under constant scrutiny. Walmart is frequently accused of driving US jobs abroad and trampling on workers' rights at home (Collins, 2004). 'McDonald's sells unhealthy food' is a refrain that the company has had to deal with more than once. Microsoft is often reminded about its undesirable market dominance and software bugs (Alsop, 2004). New Zealand dairy firm Fonterra recently had to do a product recall in China at the same time that Apple Inc. was accused of violating worker rights in Taiwan (CNN broadcast, 2013). In some cases – such as the sub-prime scandal in the banking sector in the US – reputational damage can be fatal or close to fatal. Enron in the USA, Parmalat in Europe and Perrier in France are well-documented examples of organisations that suffered severely as a result of reputational damage. British Petroleum's misconduct in the Gulf of Mexico in 2010 led to very expensive reputational damage (Bernstein, 2009; Fombrun & Low, 2011; Greyser, 2009).

A favourable corporate reputation, on the other hand, can have many beneficial outcomes. These benefits include higher levels of positive word-of-mouth advocacy and even the luxury of charging a price premium. Other benefits usually mentioned when describing the advantages of a favourable reputation include high levels of trust among clients, lower risk perceptions among current and potential clients, and higher entry barriers for potential competitors (Fombrun, 2012; Rhee & Haunschild, 2006).

Although *corporate reputation* is a phenomenon that has been with us for a long time, it has grown in importance since the mid-1990s. During the last 20 years, there has been an upsurge in the interest in *corporate reputation*, both in scholarly literature and in the popular media (Barnett & Pollock, 2012).

The academic literature on *corporate reputation* has produced a variety in terms of theoretical conceptualisation and measurement (Cavazos, 2013) and a proliferation of definitions (Barnett, Jermier & Lafferty, 2006; Barnett & Pollock, 2012; Lange, Lee & Dai, 2011; Rindova, Williamson, Petkova & Sever, 2005).

Prior to this surge in interest, *corporate reputation* had been a rather vague concept and of little concern to most organisations. It was regarded as the domain of public relations, corporate communications or marketing. Since the growth in awareness of the concept, the situation has changed and most executives recognise the importance of corporate reputation as an intangible asset, which translates into a source of competitive advantage (Nakra, 2000; Rindova & Fombrun, 1999; Roberts & Dowling, 2002). Schwaiger, Raithel, Rinkenburger and Schloderer (2011: 61-62) called corporate reputation 'the ultimate determinant of competitiveness' and demonstrated that the share of intangible assets rose from 25% to 75% between 1980 and 2002.

This view of the growing importance of corporate reputation is confirmed by many executives. In 2001, *Chief Executive Magazine* published the results of a survey executed by Harris Interactive among one thousand CEOs or senior managers in eight countries, who reported that corporate reputation played a crucial role in realising a company's strategic objectives (Thevissen, 2002). In the Ipsos Market & Opinion Research International (MORI) Captains of Industry Survey of 2008, 88% of CEOs subscribed to the view that reputation would be of increasing importance in future (*Ipsos MORI's Reputation Council Insights & Ideas*, 2009). Due to the recognition by many organisations of the importance of reputation, the responsibility for this strategic asset has moved away from the marketing and communication managers' task lists to the desks of the CEOs and executive management. Strategies on how to create, cultivate and protect corporate reputation have thus made it to the top of boardroom agendas (Sherman, 1999b).

In 2002, the World Economic Forum signed a statement on Global Corporate Citizenship in which corporate reputation was identified as a business driver of good citizenship (Dowling, 2004a). Apart from the triple bottom line, media rankings have also placed corporate reputation in the spotlight.

Fortune and a host of other publications regularly publish lists of companies that are the 'best' or 'worst' in various categories, such as the 'most admired companies', the 'best companies to work for', the 'best and worst governed' and the 'best corporate citizens' (Fombrun, 2007).

There is need, though, to measure corporate reputation in a scientific way and not by means of media rankings. As Dowling and Gardberg (2012: 34) pointed out, business organisations need to know what their 'reputation score' is in order to manage it effectively. Unfortunately, the effective measurement of corporate reputation has remained elusive, and this limitation has hampered managerial efforts to measure this invaluable intangible asset. At the heart of this 'measurement problem' is what has been described as 'construct confusion' (Dowling & Gardberg, 2012: 36). The confusion regarding related corporate-level concepts (e.g. *corporate identity, corporate image* and *corporate brand*) still persists, which contributes to the fuzziness of the construct (He & Balmer, 2007; Wartick, 2002). See a discussion of the concepts *corporate identity, corporate image* and *corporate brand* in §3.4, §3.5 and §3.6.

According to Dolphin (1999) and Nguyen and Leblanc (2001), *corporate image* is often used synonymously with *corporate reputation*. Cornelissen (2000) argued that *corporate image* is more of a short-term nature (based on day-to-day impressions) while *corporate identity* is what the firm wants others to believe about it – a kind of ideal state that the firm tries to project (Brown, Dacin, Pratt & Whetten, 2006). *Corporate reputation*, on the other hand, is a longer-term predisposition towards an organisation, and it is influenced by the views of other stakeholders and, as a result, is only partly manageable by the organisation. Reputation can also differ from one stakeholder group to another. Investors disappointed by recent returns on their investment in the shares of an organisation may hold a very different point of view about that organisation than that of satisfied, loyal clients (Barnett *et al.,* 2006; Chun, 2005; Walker, 2010).

In summary, several authors are of the opinion that there is a need for more thorough theoretical and conceptual development, as well as improved methodologies and instruments that are more valid to measure corporate reputation (Clardy, 2012; Sarstedt, Wilczynski & Melewar, 2013; Wartick, 2002).

1.3   THEORETICAL BACKGROUND

Corporate reputation has been studied from the perspectives of various academic disciplines. This study is based on several theoretical foundations, including stakeholder theory and the resource view of the organisation.

Stakeholder theory holds that a business is about more than shareholders and profit maximisation. The father of the stakeholder concept, R. Edward Freeman (1984), moved the stakeholder concept to the forefront of the academic debate (Mahon & Wartick, 2003; Roberts & Dowling, 2002). The notion that various stakeholders' opinions and perceptions – including those of clients – are important for the survival of the organisation is widely recognised (Agle, Donaldson, Freeman,

Jensen, Mitchell & Wood, 2008; O'Brady, 2006). Strategy scholars studying the organisation from a 'resource-based view' (Barney, 1991) focus on corporate reputation as an intangible asset (a resource) that yields a competitive advantage. According to this view, a favourable reputation assists an organisation to improve its competitive position (Dowling, 2004a) by protecting its market position and its relationships with clients. Organisations with a favourable reputation will receive 'benefit of the doubt' from its stakeholders when faced with a sudden crisis (Jones, Jones & Little, 2000; Mahon & Wartick, 2003).

Corporate reputation has been studied within a variety of academic disciplines, each with a unique angle and approach, such as economics, marketing, strategy, organisational development, accounting, psychology, governance and corporate communication (Argenti & Forman, 2002; Aula & Mantere, 2008; Da Camara, 2006/2007; Larkin, 2003; Mahon, 2002; Smaiziene & Jucevicius, 2009; Wang, Lo & Hui, 2003). In this study, all the above-mentioned academic approaches are taken into account and serve as inputs to a conceptual framework and the narrowed-down focus area, namely the attributes constituting a client-based corporate reputation of service organisations.

1.4   CONCEPTUAL FRAMEWORK

All stakeholders form perceptions about organisations as a result of the communication about, and their direct and indirect experiences with these organisations. All stakeholders, including clients, evaluate the corporate reputations of organisations differently. The context – for example, whether it is a service organisation or another type of organisation – will influence the perceptions of stakeholders or clients (Hansen, Samuelsen & Silseth, 2008; McDonald, De Chernatony & Harris, 2001; Nguyen & Leblanc, 2001). The 'corporate reputation score' of an organisation, derived from the perceptions of clients (whether the reputation is favourable or not) will have an impact on the outcomes for the organisation (e.g. aspects such as decisions about loyalty and whether to support the organisation) (Walsh, Mitchell, Jackson & Beatty, 2009). It was important for this study to fully disentangle the focal construct of corporate reputation itself from the antecedents and outcomes of corporate reputation (see discussion by Agarwal, Osiyevskyy & Feldman, 2014). The conceptual framework and focus of the present study, namely the attributes that make an organisation attractive (its corporate reputation), is shown in the dotted-line eclipse in Figure 1.1.
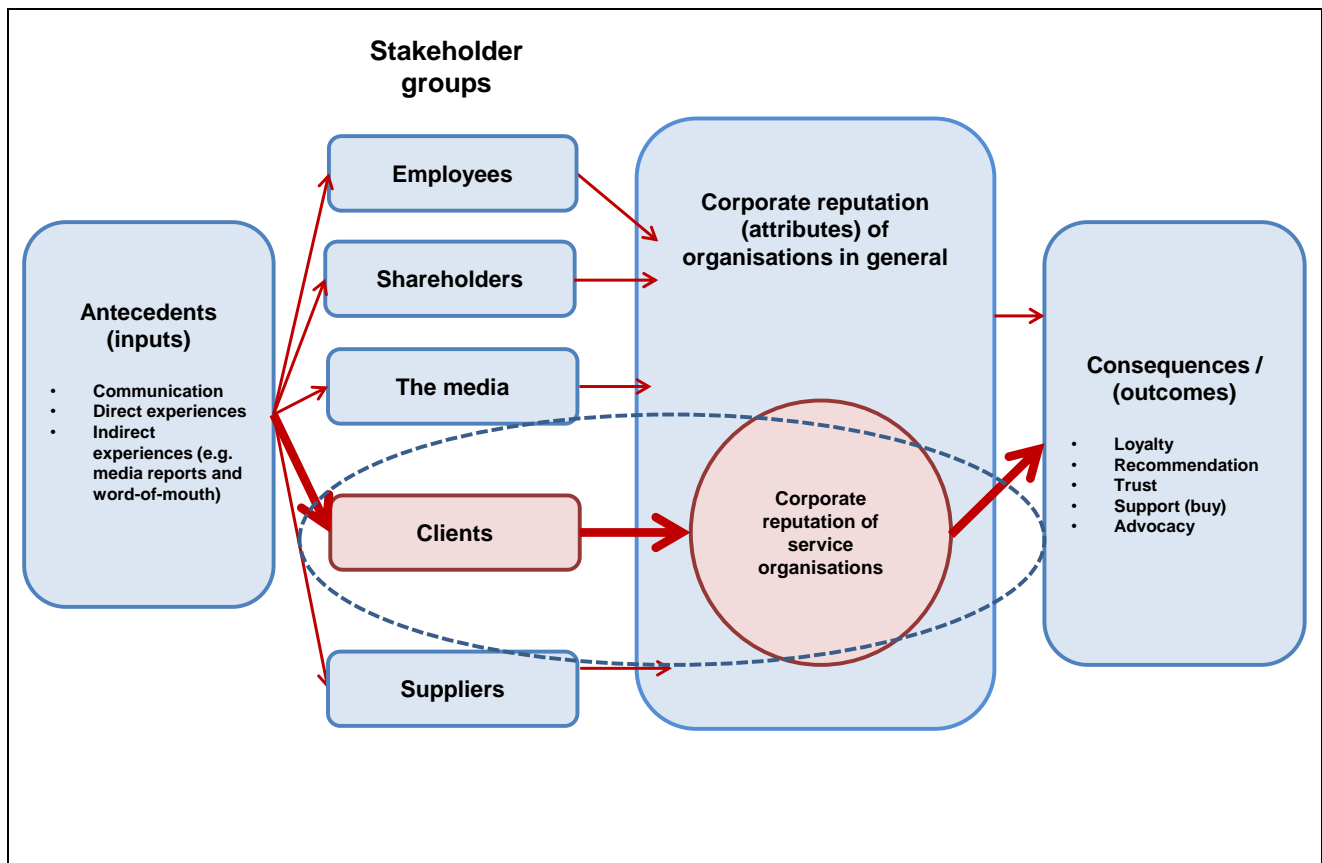
Figure 1.1: A conceptual model of the research context and focus

Source: Conceptualisation by the researcher.

The researcher identified ten dimensions (attributes) from the literature and the focus group, which were believed to be a reflection of the concept of client-based corporate reputation of large organisations functioning in the service industry. The ten dimensions of the Draft Instrument were conceptualised as: *Emotional appeal*, *Service quality, Financial performance, Vision and leadership, Workplace environment, Social and environmental responsibility, Client orientation, Quality of management, Market leadership* and *Servicescape.*

After feedback from a panel of experts, several changes and additions were made to the preliminary set of items. One dimension, *Social engagement,* was also added. The Wave 1 Instrument comprised 11 dimensions and 73 items. The eleven dimensions are shown in Figure 1.2. The dimensions with their respective items are summarised in Table 7.3 in §7.10.2.
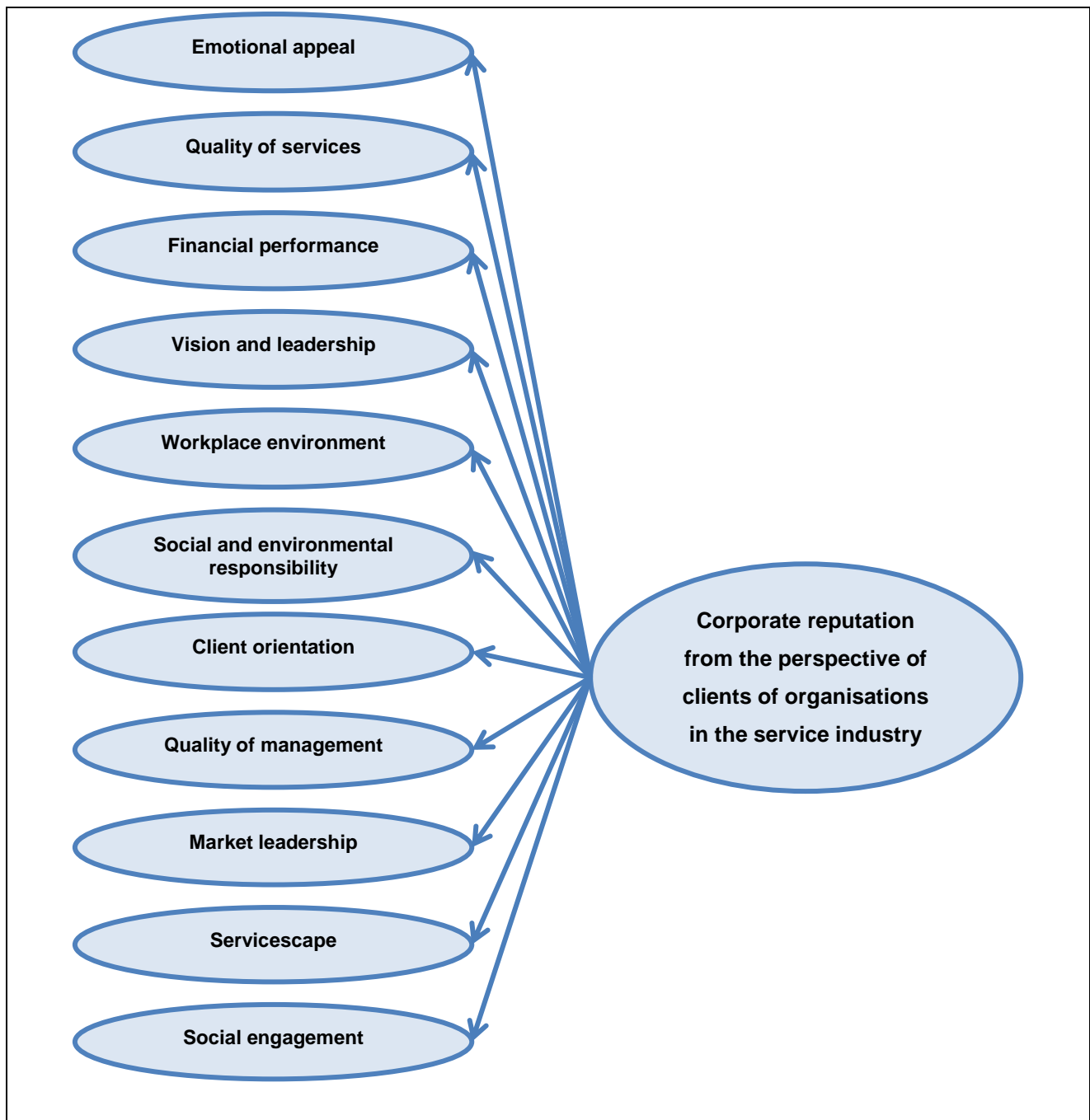
Figure 1.2: The proposed dimensions of corporate reputation of service organisations from the perspective of clients (Wave 1 Instrument)

For the purpose of this study, *corporate reputation, as seen from the perspective of clients of an organisation in the service industry*, was defined as follows:

Client-based corporate reputation is the assessment (evaluation) of the attributes of a large service organisation, based on the client's beliefs about and attitudes on the organisation's Emotional appeal, Service quality, Financial performance, Vision and leadership, Workplace environment, Social and environmental responsibility, Client orientation, Quality of management, Market leadership, Servicescape and Social engagement.

The operational definitions of the latent variables (dimensions) in Wave 1 are briefly provided below. For a detailed description of these dimensions, see §7.10.4:

1.4.1   Emotional appeal

Emotional appeal was defined as the extent to which a client of an organisation has a good feeling about the organisation, admires, respects, trusts and likes the organisation and is proud to be associated with the organisation.

1.4.2   Service quality

Service quality was defined as the client's evaluation of the high quality, innovation, reliability and convenience of the services of an organisation. *Service quality* is also an indication that a client thinks the organisation stands behinds its services (and backs them up by means of an after-sale service), and that it fits his/her needs and is value for money. Lastly, it is a reflection of a client's opinion that the organisation regularly introduces new services and offers solutions that save him/her time.

1.4.3   Financial performance

Financial performance was defined as the extent to which a client of an organisation in the service industry believes that the organisation is attracting good investors, is profitable, outperforms its competitors financially, appears to be making sound financial decisions and looks like a company with good prospects for future growth.

1.4.4   Vision and leadership

Vision and leadership was defined as the extent to which a client of an organisation evaluates the organisation as having a clear vision of the future. Furthermore, it is a reflection of the extent to which a client feels that the public knows what the organisation stands for and the extent to which it responds well when having to face negative publicity during a crisis. It is also an indication of the extent to which that client is of the opinion that the organisation shares his/her values, and has excellent and prominent leadership that is held in high regard.

1.4.5   Good employer

Good employer was defined as the extent to which a client of an organisation in the service industry perceives an organisation as having skilled and talented employees who seem to be satisfied with the organisation, being a good company to work for, treating its employees well and paying attention to the needs of its employees.

1.4.6   Corporate social responsibility

Corporate social responsibility was defined as the extent to which a client of an organisation believes that the organisation supports good causes, is committed to social issues and protects the environment, participates in communities where it does business, has good governance practices

in place and conducts its business fairly, ethically and with integrity. Furthermore, it is a reflection of the extent to which a client judges the organisation to compete fairly in the marketplace and to adhere to responsible advertising practices.

1.4.7   Client orientation

Client orientation was defined as the extent to which a client of an organisation in the service industry evaluates an organisation in terms of treating its clients fairly, responding to their needs, treating them with respect, caring about them regardless of the amount of money that they spend with the organisation and building good relationships with them. Client orientation also indicates that a client thinks that he/she is rewarded for his/her loyalty and feels safe/secure when he/she uses the services of the organisation.

1.4.8   Quality of management

Quality of management referred to the degree in which a client of a service industry organisation evaluates that there is good management in place at the helm of the organisation, that management listens to him/her and provides frequent communication that is valuable, and the extent to which a client is of the opinion that management has good structures and systems in place and is dynamic and accessible.

1.4.9   Market leadership

Market leadership referred to the extent to which a client of a services-based organisation perceives the organisation to be a leader in its industry, a market leader and a well-recognised brand. Furthermore, it refers to the extent to which the services of the organisation are familiar to the public, the organisation takes advantage of market opportunities and its communication and advertising are effective. It also refers to the degree to which the organisation is open and transparent in its communication and the extent to which its after-sales communication and responses are adequate.

1.4.10   Servicescape

Servicescape was defined as the degree to which clients of a service-based organisation regard the services they receive as consistent at all service points, as user-friendly and as effective. Furthermore, it is the extent to which clients perceive services to be rendered in a professional environment, and the outlets (branches) to be conveniently located, as well as clean and tidy. Servicescape is also defined in terms of the overall satisfaction with the service of the organisation.

1.4.11   Social engagement

Social engagement was defined as the degree to which a client of an organisation judges the organisation to engage with its stakeholders, to respond to the needs of communities and to reach out to its social environment.

1.5   RESEARCH PROBLEM

In order to manage the perceptions of their clients, senior managers in organisations need exact information on the beliefs and attitudes their clients hold in terms of their organisations. Managers must know which aspects of their organisations (dimensions) contribute towards a favourable reputation and which aspects are dragging the organisation down to cause a less favourable reputation. Managers need to know which attributes of the organisation make their clients to like and love them, and which attributes are counting against them. The tracking and improvement (management) of corporate reputations has become essential, because a favourable corporate reputation has become a primary source of competitive advantage for the organisation (Schwaiger, Raithel & Schloderer, 2009).

A vast number of different instruments exist to measure an organisation's corporate reputation, based on different approaches and operationalisations. Unfortunately, the lack of consensus about what exactly corporate reputation is (Hutton, Goodman, Alexander & Genest, 2001; Nguyen & Leblanc, 2001) and the lack of consensus about how to measure the construct in a valid and reliable way, have become a barrier to effective reputation measurement (Wilczynski, Sarstedt, & Melewar, 2009). Adding to this problem, almost all corporate reputation instruments have been developed for use by all stakeholder groups of an organisation (clients, employees, investors, senior management and others), generally referred to as an 'overall/general reputation'. In addition, these existing instruments have been developed for use in all types of organisations/companies (offering both products and services). This situation has led to inaccurate measurements of corporate reputation, because most of these measurements instruments (see Chapter 6) were not designed to measure corporate reputation from the perspective of the client stakeholder group in particular. A few attempts have been made to measure client-based corporate reputation, but serious flaws have been identified with the instruments and therefore the validity of the instruments is in question (see §6.1).

Organisations use existing instruments, which were originally designed to measure an 'overall/general reputation' from the viewpoints of stakeholders in general, to measure their client-based corporate reputations. These instruments were also designed for use in all types of organisations. Organisations in the service industry are in danger of wasting money and time in their efforts to manage their corporate reputations because they could be focusing on the wrong issues.

The **focal point of this study** was to develop a valid and reliable instrument to measure corporate reputation (the beliefs about and attitudes toward the organisation) from the viewpoint of clients of an organisation in the service industry. This study is thus designed to identify the dimensions of client-based corporate reputation in a services setting.

This study set out to identity the specific dimensions that ***clients*** take into account when they assess the corporate reputation of organisations and to determine which dimensions are of particular importance in the ***service industry.***

The development of a new instrument to measure client-based corporate reputation in services will ensure that managers know exactly which aspects of their organisations' corporate reputation their clients take into account, and therefore which aspects to focus on and to manage with this particular stakeholder group.

The first major attempt to measure corporate reputation was *Fortune's* Most Admired Companies survey initiated in the 1980s. The fact that practitioners and the media were the first to do corporate reputation research and to measure it, has, however, led to confusion and the lack of a proper definition of the construct (Barnett *et al.,* 2006; Fombrun, Gardberg & Sever, 2000; Gotsi & Wilson, 2001b; Walker, 2010).

Corporate reputation has generally been regarded as the assessment of an organisation by all its stakeholders. Following Fombrun (1996), a leading author in the field, several other researchers have defined reputation as the aggregate perception of all stakeholders (Flanagan & O'Shaughnessy, 2005; Zyglidopoulos, 2005). A host of measurement instruments have been developed in recent years for use with stakeholders in general and organisations in general, but little work has been done to develop a valid, reliable measurement instrument to measure corporate reputation from the viewpoint of clients in the service industry (Bromley, 2002; Chun, 2005; Walsh & Beatty, 2007; Wartick, 2002). According to Walker (2010), current instruments are likely to measure only a portion of the overall reputation and sacrifice information per stakeholder group in an effort to measure the collective perception.

It has become clear from the literature that all stakeholder groups view an organisation differently because of differences in needs, expectations and issues. Therefore, it is debatable whether a specific stakeholder group such as clients will base its evaluations of the corporate reputation of an organisation on the same set of dimensions as those that have been identified to be valid for stakeholders in general (Balmer & Greyser, 2006; Bromley, 2002; Fombrun *et al.,* 2000).

This study is thus based on the assumption that a 'separate' corporate reputation exists for every stakeholder group and that it should therefore be measured from the perspective of the particular group (such as clients). Evidence is lacking, though, on whether the corporate reputation of organisations is indeed perceived differently by clients as opposed to stakeholders in general. There is also a lack of evidence on whether clients use different dimensions when they evaluate organisations in the service industry as opposed to organisations in general. Little work has been done that focuses on clients (customers), who are generally regarded as a very important stakeholder group (Walsh, Dinnie & Wiedmann, 2006). Sufficient progress has not been made to develop an instrument that can measure corporate reputation from the perspective of specific

stakeholder groups (such as clients) or in specific contexts (such as organisations in the service industry or in a specific country) in a valid, reliable and rigorous way (Davies, 2011; Walsh *et al*., 2006). This is the research gap that is being addressed in this study.

1.6   RESEARCH GOAL

The research goal of this study is based on two propositions. Firstly, an instrument that has been developed specifically to measure corporate reputation from the perspective of clients of an organisation should be used to measure client-based corporate reputation. Little work has been done to develop such a valid and reliable instrument. Secondly, an instrument that has been developed specifically to measure corporate reputation in organisations that function in the service industry should be used to measure corporate reputation in these types of organisations. Little research has been done to develop an instrument to measure reputation in service organisations only.

Therefore, no valid instrument currently exists to measure the corporate reputation of service organisations from the perspective of the client stakeholder group.

The purpose of this study is thus:

- To develop a reliable and valid new instrument to measure the corporate reputation of large organisations from the perspective of the client stakeholder group in the service industry.

1.7   RESEARCH QUESTIONS

The research questions of this study are derived from the research goal and are as follows:

1.7.1   Research question 1:

What are the dimensions that clients of an organisation in the service industry take into account when they evaluate the corporate reputation of an organisation?

1.7.2   Research question 2:

Are the dimensions that clients of an organisation in the banking sector take into account when they evaluate the corporate reputation of a bank different to the dimensions that clients of an organisation in the airline sector take into account when they evaluate the reputation of an airline?

1.7.3   Research question 3:

Do the dimensions that the client stakeholder group take into account when they evaluate the corporate reputation of an organisation differ from the dimensions that all stakeholders take into account when they evaluate the corporate reputation of an organisation?

1.7.4   Research question 4:

Do the dimensions of a corporate reputation of a services-based organisation differ from that of other organisations?

1.8   RESEARCH DESIGN AND METHODOLOGY

1.8.1   Research methods

This study follows mainly a positivistic paradigm, involving quantitative methods, although a qualitative method, namely a focus group, was used to identify patterns of thinking used by clients to assess corporate reputation. Large-scale surveys were administered, using six questionnaires in three waves. Large samples of the target population were used to obtain data that was statistically analysable.

1.8.2   Data sources

Both primary and secondary data sources were used.

1.8.3   Primary data sources

1.8.3.1 *Focus group*

In this study, a focus group was used to explore the specific aspects and issues that influence clients' perceptions of the corporate reputations of their service organisations. Data was generated in a semi-structured setting.

1.8.3.2 *Panel of experts*

A panel of experts – academics and senior practitioners from around the globe – evaluated the dimensions and items in the first draft of the questionnaire, which was compiled from the literature review and focus group interview.

1.8.3.3 *Large-scale survey*

Questionnaires were developed to collect data from the target population, namely clients of large service organisations in the banking and airline sectors. The online surveys were recorded on a website and the response data captured on spreadsheets on the same site. A link to the online questionnaires was distributed to potential respondents by email in three waves of data collection.

1.8.4   Secondary data sources

1.8.4.1 *Literature review*

A comprehensive literature search was conducted in order to identify as many dimensions and associated items that constitute the construct of corporate reputation as possible, as seen from the perspective of the clients of an organisation in the service industry. The development of corporate reputation measurement instruments and, more specifically, client-based (customer-based) instruments to measure corporate reputation was studied.

1.9   STUDY POPULATION AND SAMPLING

The theoretically defined study population of all clients of service-industry organisations in South Africa could not be sourced. Two sectors – the banking and airline sectors – were selected as two

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prominent examples of the service industry because these two sectors are well known, a large percentage of people are clients of these organisations, and data could be sourced from these clients. The total client pool of the ten large organisations that function in these two sectors, namely banks and airlines, could also not be obtained directly. However, clients of these organisations in South Africa could be accessed by utilising the client databases of other service organisations.

It was argued that alumni of the University of Stellenbosch Business School (USB) and its executive development arm, USB Executive Development (USB-ED), as well as people appearing in a commercial database, were likely to be clients of a bank or airline in the country. The names contained in the USB and USB-ED alumni database and the commercial database were utilised in census studies in three consecutive waves of data collection.

Specific sampling frames were thus used to get access the clients of the organisations functioning in the two service sectors. This technique was regarded to be in order because the purpose of the study was not to generalise the results generated from the data to a larger population. The main purpose of the present study was to design a new measurement instrument that could be used by large service organisations to measure its corporate reputation from the perspective of its clients.

1.10   SCALE DEVELOPMENT PROCESS

To develop the proposed scale, a series of scale purification steps was used, starting with an exploratory factor analysis and concluding with an invariance analysis, to assess the validity of the scale.

The data was analysed to refine, purify and to replicate the measurement instrument during three waves.

A number of statistical techniques were used to assess the construct validity of the proposed instrument, including unidimensionality, convergent validity, reliability, discriminant validity, nomological validity, model fit and invariance. The most important steps, statistical analyses, techniques and test statistics used are listed in Table1.1 below. The steps to develop the new scale are discussed in detail in the chapter on research methodology, §7.10.5.

Table 1.1: Scale development steps and statistical analyses done in three waves

Purpose of analysis	Statistical analyses, techniques and test statistics
Factor analysability	• Bartlett's Test of Sphericity • Kaiser-Meyer-Olkin's Measure of Sampling Adequacy
Discriminant validity (construct validity)	Factor analysis (exploratory factor analysis): Principal Axis Factor (PAF) with a Direct Quartimin Oblique (Orthogonal) Rotation
Factor structure	Eigenvalues
Model fit	• Fit indices (Chi-square, RMSEA, ECVI, CN) (CFA) • Modification indices • Squared multiple correlations • Standardised residuals
Convergent validity (construct validity)	Factor analysis (confirmatory factor analysis: Robust Maximum Likelihood), average variance extracted
Discriminant validity (construct validity), Unidimensionality	• Factor loadings, cross-loadings • Comparison between average variance extracted and squared correlation between each pair of constructs (shared variance test)
Nomological validity (construct validity)	Two new scales used; analyses to establish correlation between scales in the same nomological net
Invariance	Fit indices (CFA)
Reliability (internal consistency reliability and composite reliability)	Cronbach's Alpha; composite reliability (CFA)

This study was done in the positivistic tradition, involving quantitative and objectivist methods. This study pursued a 'new truth' about client-based corporate reputation in the service industry. In this type of positivistic study, dealing with human behaviour and social sciences (marketing research), analyses are carried out in a rigorous manner, though specific to the social environment. In this instance, the construct of client-based corporate reputation in services was quantified.

1.11   SCOPE AND DELIMITATIONS

The study did not include the measurement of the antecedents (inputs) of corporate reputation or the outcomes (consequences) of corporate reputation. Related corporate concepts such as *corporate identity, corporate image* and *corporate brand* were taken into account, but excluded from the study.

This study was limited to the measurement of the attributes of client-based corporate reputation of large organisations in the service industry (those aspects that make service organisations attractive to their clients). Two sectors, the banking sector and the airline sector, were selected to represent the service industry because they are well known and typical examples of service organisations.

The study was confined to South African organisations. It could therefore not be concluded that the findings were necessarily true for organisations in other countries. However, in developing a measurement instrument, the intention was not to be country-specific, but to retain a universal focus.

1.12   DEFINITION OF KEY TERMS

With the focus of this study being the development of a measurement instrument for corporate reputation from the perspective of clients of organisations in the service industry, clear definitions are presented below.

1.12.1   Measurement instrument

A measurement instrument or scale is a measure, which combines the values of several variables (items or indicators) into a composite measure. It is used to predict or gauge an underlying continuum, which is measured by a series of single items (Nie, Hull, Jenkins, Streinbrenner & Bent, 1978). According to Babbie (2010), a scale is composed of several items of a variable (dimension, latent construct or latent variable) that have a logical or 'intensity' structure (different degrees or levels) among them (e.g. Likert scale).

1.12.2   Client-based corporate reputation

For the purpose of this study, *client-based corporate reputation* is defined as the assessment and evaluation of the attractiveness of a service organisation's attributes by clients.

1.12.3   Client

For the purpose of this study, a *client* is defined as a current buyer of services of an organisation.

1.12.4   Organisation

An organisation is a systematic arrangement of people brought together for a specific purpose and in a systematic structure. For the purpose of this study, an *organisation* has the meaning of a *large organisation with a business purpose* (including companies and state-owned enterprises).

1.12.5   Service industry (services)

For the purpose of this study, *services* or the *service industry* is defined to include organisations of which the outputs are non-physical products that are generally consumed at the time of production, that are intangible and that provide added value (in forms such as convenience, amusement, timeliness, comfort, education or health).

1.13   DISSERTATION STRUCTURE

The present study is organised in nine chapters.

Chapter 1 has provided a brief overview of the dissertation and the research activities involved. It has highlighted the importance of corporate reputation for organisations and discussed the

significance of the study. The theoretical background and conceptual framework, as well as the research problem, research questions and research goal have been discussed. The remainder of the chapter comprises a brief description of the research methodology, scope and delimitations, study population and sampling and the data analyses. Definitions of key terms have been provided.

Chapter 2 offers a definition and an in-depth conceptualisation of corporate reputation and client-based corporate reputation in particular. It focuses on the importance of corporate reputation in the business world. Corporate reputation as a strategic and intangible organisational asset and source of competitive advantage is demonstrated and the notion of reputational capital is introduced. Current definitions as well as the antecedents and outcomes of reputation are discussed. The main focus of the chapter is the attributes that make an organisation attractive to its stakeholders, and especially its clients.

Chapter 3 introduces, defines and discusses the concepts of *corporate personality, corporate identity, corporate image* and *corporate brand*. The rationale for the inclusion of this chapter as part of the literature review is the confusion and overlap that exist between these concepts and corporate reputation. The relationship between these concepts and *corporate reputation* is investigated and clarified.

Chapter 4 discusses concepts concerning the research domain of this study, namely *stakeholders, clients, organisations* and the *service industry*. Stakeholders have always been closely linked to the concept of corporate reputation, and the construct has mostly been studied from a multiple stakeholder perspective.

Chapter 5 offers a discussion of traditional and modern scale development. The predominant protocols used in the past, which formed the basis of scale development over the years, are discussed. Emphasis is placed, however, on the protocols that are regarded as essential in modern scale development, such as construct validity, reliability, model fit and invariance.

Chapter 6 consists of a discussion of the various approaches to the conceptualisation and operationalisation of corporate reputation. Emphasis is placed on different approaches to measure the attributes of corporate reputation. Attempts to measure corporate reputation from the perspective of clients as one of the most important stakeholder groups in a services setting are deliberated in detail.

Chapter 7 comprises an explanation of the research paradigm and approach, research methods and research context (domain), data sources and study population. A systematic description of the process to develop a new instrument to measure client-based corporate reputation in the service environment is provided. The processes of data collection and analyses to refine, purify and replicate the instrument are described. The statistical analyses performed in three waves to ensure

construct validity – including unidimensionality, convergent validity, reliability, discriminant validity, nomological validity, model fit and invariance – are explained.

Chapter 8 is a presentation of the empirical findings of the study. The empirical findings from the processes of data collection and statistical analyses in three waves of instrument development are explained in detail. The results of statistical analyses performed in three waves to ensure construct validity – unidimensionality, convergent validity, reliability, discriminant validity, nomological validity, model fit and invariance – of the final instrument are discussed.

Chapter 9 provides a summary and the conclusions that were made after a new instrument to measure client-based corporate reputation in services had been developed. The implications of the research findings are explained in detail. Recommendations are provided for managers in organisations as well as for further research.

1.14   THE CONTRIBUTION OF THE STUDY

Organisational success is increasingly being attributed to the presence of intangible assets that provide a competitive advantage to an organisation. Corporate reputation has proven to be one of the most important among these intangible assets. Yet, not many people know exactly what constitutes a corporate reputation and even fewer know how to measure it in order to manage it.

In a world that is becoming increasingly transparent, eminent service organisations are under pressure to show that they are 'doing the right things' in the eyes of their clients. Clients are one of the important – if not the most important – stakeholder group of a service organisation. Knowing what is important to clients when they evaluate an organisation is the first step in managing the client-organisation process more effectively. This evaluation (judging) of an organisation by its clients is, of course, nothing else than the measurement of its corporate reputation. Knowing what is important to clients is the focus of the study.

The client stakeholder group has been neglected in previous studies on corporate reputation, and so has the context of the service organisation where the impact of corporate reputation is more significant, as a result of the intangibility of services.

This study makes a contribution through the development of a new instrument that is valid and reliable, and that organisations can use to determine their 'corporate reputation score' and to identify the focus areas before embarking on reputation-building and reputation-management programmes. The strong and weak areas that impact negatively on the reputation of an organisation, as pointed out by clients, could be timeously identified, isolated and addressed with the client group specifically.

This study proposes that the measurement of an organisation's client-based corporate reputation is an all-important starting point to assess the gap between where it is currently and where it wants to be in terms of its reputation. The results of the study will provide managers with an instrument to

measure this gap and thus enable organisations to effectively direct their reputation management processes.

The study attempts to make a scholarly contribution by addressing the shortage of previous research on client-based corporate reputation in service organisations. It narrows down previous research to specifically address the dimensions that clients take into account when they evaluate the attractiveness of their organisations.

Advanced statistical techniques such as structural equation modelling, as well as the use of large samples, further add to the validity of the research in this area and specifically to the instrument, that is the tangible outcome of this study.

1.15 SUMMARY AND CONCLUSIONS

In this chapter, the nature and purpose of the study was outlined, providing the reader with a guide to the structure of the dissertation. The chapter started with a background on the research problem and a theoretical and conceptual framework for the study. The research problem, research goal, research design and methodology, scope and delimitations, definition of key terms and the structure of the dissertation were explained in short. The chapter concluded with a discussion of the relevance of the study and the contribution that it makes to the body of knowledge and to business.

In Chapter 2, the literature on corporate reputation is reviewed. Definitions of corporate reputation are studied and special attention is given to a definition of corporate reputation as perceived by clients. A final definition for the purpose of this study is provided. What corporate reputation entails (its definition and formation) – specifically from the perspective of clients – receives special attention, this being the focus area of the research. The link between reputation and the state of the current global business environment is investigated. The focus shifts to corporate reputation as a strategic and intangible organisational asset and a source of competitive advantage, as well as to its potential impact on business success. The relationship between corporate reputation and financial performance, and the notion of reputational capital are discussed. The inputs (antecedents) to the formation of corporate reputation and outcomes (consequences) of corporate reputation are briefly investigated.

CHAPTER 2

THE CONCEPT OF CORPORATE REPUTATION

'The greater the difficulty the more glory in surmounting it.
Skilful pilots gain their reputation from storms and tempests.'

- Epictetus

2.1   INTRODUCTION

Chapter 1 outlined the nature and purpose of the study and provided the reader with a guide to the structure of the dissertation. A background to the concept of corporate reputation and its importance in the business world was provided, followed by the theoretical and conceptual frameworks of the study. The research problem, research statement, research goal, research design and methodology, scope and delimitations, definition of key terms and the structure of the dissertation were explained. The importance of the study was highlighted, including its contribution to the body of knowledge on corporate reputation and its application in business.

This chapter examines previous research on the concept of corporate reputation with a view to gaining an understanding of what the attributes of corporate reputation are. The construct of corporate reputation is defined and special attention is given to a definition of client-based corporate reputation.

In the first section of this chapter, the focus falls on the importance of corporate reputation as a relatively new field, and its theoretical underpinnings. The link between reputation and the state of current global business is investigated. Thereafter, the attention shifts to corporate reputation as a strategic and intangible organisational asset and a source of competitive advantage, as well as its potential impact on business outcomes. The relationship between corporate reputation and financial performance, as well as the notion of reputation capital is investigated. The importance of relationships in the formation and outcomes of corporate reputation, as identified in the literature, is discussed.

Although this study focuses on what constitutes corporate reputation (the attributes that make an organisation attractive), this chapter also gives a clearer picture of what contributes to the formation of corporate reputation (the antecedents/inputs), the consequences (outcomes) and the possible business successes of corporate reputation (see the block second from the left in Figure 2.1, which is where the attributes of corporate reputation fit in and which is what this study is investigating).

Corporate Reputation Antecedents / inputs	→	Corporate Reputation Attributes / Dimensions	→	Corporate Reputation Outcomes / consequences	→	Corporate performance and business success
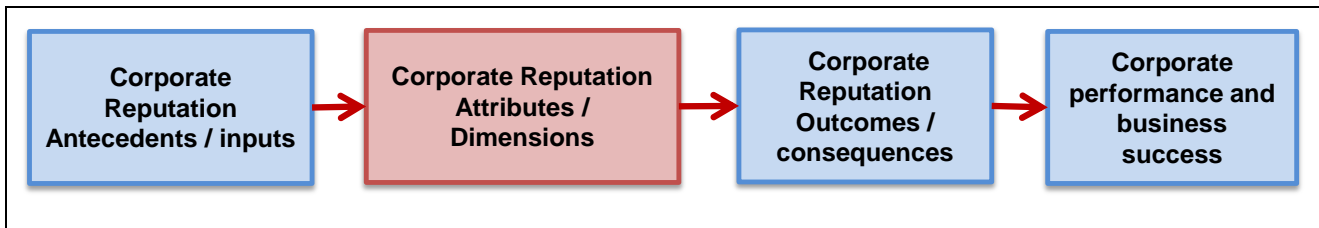
Figure 2.1: The inputs, attributes and outcomes of corporate reputation that could co-create eventual business success

2.2   DEFINING CORPORATE REPUTATION

2.2.1   A general definition

Several researchers identified a need to clarify and to reach consensus on the somewhat contradictory and confusing definitions of corporate reputation that exist (Dolphin, 2004; Fombrun, 2012; Jensen, Kim & Kim, 2012: Lange *et al.*, 2011; Lloyd, 2007; Walker, 2010; Wartick, 2002).

Definitions of corporate reputation have multiplied (King & Whetten, 2008; Rindova *et al.*, 2005). Barnett *et al.* (2006) analysed the definitional landscape, found 49 meanings of corporate reputation and concluded that a precise and commonly agreed-upon definition was still lacking after the initial 'reputational landscape' was described by Fombrun and Van Riel (1997; 2003) as chaotic and barren.

Barnett *et al.* (2006) grouped an 'inventory' of definitions into three distinct clusters, namely reputation defined as awareness (they found 15 definitions in this cluster), reputation as an assessment (17 definitions) and reputation as an asset (six definitions), and a mixed cluster (11 definitions). They proposed the definition of corporate reputation to be 'observers' collective judgements of an organisation based on assessments of the financial, social, and environmental impact attributed to the corporation over time.

The definitions of corporate reputation were also analysed by Lange *et al.* (2011) and categorised into three themes: 1) being known (general awareness and visibility; prominence), 2) being known for something (predictability of outcomes and behaviour), and 3) generalised favourability (judgements of the organisation as good, attractive and appropriate).

To date, most leading authors described corporate reputation as the overall perception of all stakeholders towards an organisation; the general esteem in which the organisation is held by its multiple stakeholder groups. The definition of Fombrun and his fellow authors (Fombrun, 1996; Fombrun, 2000; Fombrun & Rindova, 2000) has been widely accepted and used over the years. They defined corporate reputation as 'a perceptual representation of an organisation's past actions and future prospects that describes the organisation's overall appeal to its key constituents when compared with other leading rivals'. Fombrun (1996: 37) also formulated a shorter definition: 'Corporate reputation is the overall estimation in which a particular organisation is held by its

various constituents'. A simple definition was provided by Brown *et al.* (2006) when they defined reputation as the answer to: What do stakeholders actually think of the organisation?

Walker (2010), who did a systematic review of 62 studies of corporate reputation, proposed a definition similar to the original definition of Fombrun: 'A corporate reputation is a collective representation of a firm's past actions and results that describe the firm's ability to deliver valued outcomes to multiple stakeholders'.

The literature does not provide full consensus about what constitutes a corporate reputation. In addition, the concepts *corporate identity*, *corporate image, corporate brand* and *corporate reputation* are often confused (Bromley, 2001; Clardy, 2012; Fombrun, 2012; Walker, 2010; Wartick, 2002). According to Dolphin (1999) and Nguyen and Leblanc (2001), *corporate image* was often used synonymously with *corporate reputation* (see discussion of *corporate identity, corporate image* and *corporate brand* in Chapter 3).

Gotsi and Wilson (2001b) attempted to define *corporate reputation* in relation to *corporate image* and concluded that definitions can be categorised into two dominant schools of thought – the analogous and the differentiated schools of thought. They argued that early writings in the area of *corporate reputation* tended to concentrate on the concept of *corporate image*, because image studies were very fashionable in the 1960s and 1970s. These writers – the analogous school – regarded *corporate image* and *corporate reputation* as synonymous. Barich and Kotler (1991), Dowling (1986, 1994), Greyser (2003), Martineau (2003), Van Riel, Stroeker and Maathuis (1998) and Worcester (2009) are examples of authors who concurred with this view.

The differentiated school, consisting mainly of contemporary writers, regarded *corporate reputation* and *corporate image* as different, but interrelated concepts. According to Gotsi and Wilson (2001b), this *differentiated school* seemed to have three dominant views. The first view considered *corporate reputation* and *corporate image* as different and separate concepts, emphasising the negative associations with the latter. According to these authors, image is 'false', 'fabricated', 'superficial', a 'reproduction of reality', and 'an insult rather than a compliment'. Grunig (1993) was a member of this group. The second view regarded corporate reputation to be a contributor to *corporate image* (Mason, 1993). The third view saw corporate reputation as a snapshot that reconciled the multiple images of stakeholder groups (Balmer & Greyser, 2003b; Bromley, 1993; Fombrun, 1996; Lloyd, 2007). See a discussion on the relationship between *corporate reputation* and *corporate image* in §3.5.

Chun (2005) distinguished between three schools of thought within the reputation paradigm – evaluative, impressional and relational. Any 'relational differences' or 'gaps' between the different views are crucial in the management of reputation. The relational school recognised that various stakeholder groups have different expectations of an organisation. Many authors, such as Clardy (2012) and Cornelissen and Thorpe (2002), concurred with this view that different stakeholder

groups will evaluate the organisation differently, both in terms of the defining characteristics as well as the nuances and distinctions. An investor disappointed by recent returns on his/her investment in the shares of an organisation may hold a very different point of view about that organisation than a loyal employee.

The evaluative school assessed reputation in terms of financial performance. This view became popular once reputation was recognised as a source of competitive advantage and an intangible asset (Boyd, Bergh & Ketchen, 2010). Caruana (1997), Deephouse (2000) and Fombrun and Shanley (1990) were among the authors who linked corporate reputation to the evaluation of companies.

The impressional school used terms such as identity, image and personality, and regarded reputation as a reflection of the relevant stakeholders' overall impression of the organisation (Chun, 2005).

Rindova *et al.* (2005) introduced a prominence and perceived quality perspective, according to which reputation manifests itself along these two dimensions. Prominence refers to the overall level of recognition in the collective cognitive space, whereas perceived quality reflects the relative favourability of stakeholders' evaluations (Rindova & Martins, 2012).

Wiedmann (2002) made the point that it is not good enough for an organisation to be good at performing in various areas. It also needs to be emotionally relevant to its stakeholders. Fiske, Cuddy and Glick (2006) and Fiske (2012) also confirmed Warmth and Competence/Perceived performance as universal dimensions of social cognition. Fiske *et al.* (2006) established that people everywhere differentiate each other by liking (Warmth, Trustworthiness) and by respecting (Competence, Efficiency). Smaiziene and Jucevicius (2013) concurred with this view and concluded that reputation has two components, namely an instrumental (economic, rational) part and a normative (or moral, constitutive) one.

Aula and Mentere (2008) introduced the instrumentalist (economic, capital, financial or value-driven) and the interpretive (meaning-driven) views, and proposed the arena model of organisational reputation as a 'reconciliation' between these two views. According to the instrumentalist view, reputation is seen to be of financial significance. Reputation provides an organisation with a competitive advantage, for which a value can be calculated (reputational value in this case). While the instrumentalist viewpoint fails to explain the formation of reputation, the interpretive view provides better answers in this respect. According to this view, an organisation's reputation does not reside within management, but belongs to and is controlled by the stakeholders of the organisation. Reputations should then rather be studied as interpretations among stakeholders, because they are formed as part of communication and other social construction (Lange *et al.,* 2011) processes. According to the arena model, reputation management requires a different view, namely an environment of meaning, which consists of

opinions, symbols, stories, rumours and other forms of communication that create and convey meaning about an organisation. Organisational communication takes place in various *arenas* inside and outside the organisation (meetings, the internet, the media, texts, unofficial networks) with members, stakeholders and others. These arenas – or marketplaces of meaning – are the birthplaces of corporate reputation. Stakeholders negotiate the meanings and do not simply accept the meanings intended by the organisations. Thus, reputations can be seen as the production and renewal of conceptions and representations by stakeholders of an organisation – as meaning-construction or interpretation (Aula & Mantere, 2013).

Schultz, Hatch and Larsen (2000) pointed out that definitions of corporate reputation have changed over time from output measures of corporate performance to a strategic construct. Lloyd (2007) and others emphasised the importance of value in the context of reputation (Bromley, 2001; Fombrun, 1996; Hansen *et al.*, 2008).

Walker (2010) argued that corporate reputation is issue-specific and will therefore differ according to the issue under review (e.g. environment, profitability, governance or quality of services) (see also Carter & Deephouse, 1999). This view ties in with the argument of Lewellyn (2002) that the fundamental question to be asked is: Reputation for what? Fombrun (2012), though, warned against the inclusion of issues-specificity as well as antecedents and consequences in a definition of corporate reputation. He proposed that definitions of corporate reputation should be attribute-specific (see also Jensen *et al.,* 2012) and that the following four components be retained, namely that reputations are: 1) collective assessments 2) of an organisation's attractiveness 3) to a specific group(s) of stakeholders 4) relative to a reference group of companies.

It is clear from an in-depth review of the literature that a host of definitions of corporate reputation exists. Certain elements repeat themselves in the definitions of corporate reputation. Table 2.1 provides a summary of the common elements in the definitions.

Table 2.1: A summary of the elements in definitions of corporate reputation

Element in definition	Description	Authors mentioning this element
Corporate reputation is historically rooted; it takes time to develop.	Corporate reputations have historical roots and are formed over a period of time. Corporate reputations do not form overnight, but take time to develop.	Balmer and Greyser (2003f); Bennett and Kottasz (2000); Davies (2003); Herbig and Milewicz (1995b); Marconi (2001); Nguyen and Leblanc (2001); Rhee and Haunschild (2006); Walker (2010); Wang *et al.* (2003).
Corporate reputation is based on past and current activities, behaviour and achievements and on future prospects (predictability).	Through reputation, an organisation's past record, current state and observations by stakeholders, and its future prospects are linked together. Perceptions of stakeholders are based on past and present actions, and the behaviour, achievements, qualities and performance of an organisation. These are taken into account when reputations are formed. Reputation is also a reflection of expectations of how the business will act in future. It is based on the willingness and ability to perform consistently. It is about predictability of behaviour and about the likelihood that the organisation will deliver valued outcomes to multiple stakeholders.	Aula and Mantere (2008); Fombrun (2000); Frost and Cooke (1999); Gray and Balmer (1998); Herbig and Milewicz (1995a); Lewis (2001); Sandberg (2002); Tucker and Melewar (2005); Wang *et al.* (2003); Whetten and Mackey (2002).
Corporate reputation concerns all stakeholders.	All stakeholders' perceptions are important in the formation of corporate reputation. In the majority of cases, reputation is studied from the perspective of all stakeholder groups.	Balmer and Greyser (2003f); Fombrun (1996); Fombrun and Shanley (1990); Klein (1999); Schultz, Mouritsen and Gabrielsen (2001).
Corporate reputation is an aggregate rating. Other terms like 'overall', 'collective', 'cumulative' and 'composite' are also used. It is thus a collection of opinions or images.	Reputation is a distribution of opinions. The collective evaluations and judgements of various stakeholder groups crystallise into reputations. Organisations thus have multiple reputations, because each stakeholder group applies a different set of criteria to assess organisations, or prioritises attributes in a different order. Reputation is the overall (collective, cumulative, aggregate, net) outcome/result. It is the aggregate perception, describing the overall appeal to stakeholder groups.	Aula and Mantere (2008); Bromley (2001); Davies (2003); Dolphin (2004); Fischer and Reuber (2007); Fombrun *et al.* (2000); Fombrun and Van Riel (2003); Grunig and Hung (2002); Kumar (1999); Larkin (2003); Mahon (2002); Neville, Bell and Mengüc (2005); Walsh and Beatty (2007); Wartick (2002).
Corporate reputation is based on perceptions/ impressions/mental associations; it has a cognitive-perceptual dimension.	Corporate reputation is based on the perceptions, impressions, beliefs, feelings, opinions and/or knowledge that people have about the attributes of an organisation. It is a state of mind that sits in the stakeholder's consciousness. Reputation refers to mental associations.	Andersen and Sørensen (1999); Brotzen (1999); Brown *et al.* (2006); Fombrun (1996); Larkin (2003); Rose and Thomsen (2004); Schultz *et al.* (2001); Walsh, Mitchell, Jackson and Beatty (2009); Walker (2010).
Corporate reputation is formed in a rational (cognitive) as well as an emotional (affective) way. Some authors emphasised the attitudinal side.	Reputation consists of both rational and emotional elements. Reputation is both a belief and an attitudinal construct, where an attitude denotes the subjective (emotional) mind-set and a belief the cognitive (rational) mind-set.	Bromley (2001); Larkin (2003); *CRI – The corporate reputation chain* (2007).

Element in definition	Description	Authors mentioning this element
Corporate reputation is a reflection and evaluation of trust, admiration, respect and esteem.	Reputation is the reflection of an evaluation (value-judgement) of the admiration of, trust in and respect for the organisation. It is the estimation and esteem (regard) in which an organisation is held by its stakeholders; it is about how an organisation is evaluated in terms of reliability, credibility, trustworthiness and responsibility.	Abimola and Kocak (2007); Balmer (1998); Dowling (2001); Fombrun (1996); Larkin (2003); Mahon (2002); Mahon and Wartick (2003); Schultz *et al.* (2001).
Corporate reputation is related to societal values.	Reputation is a by-product of the harmony between an organisation's values and the values of the society in which it operates. People form reputations by comparing what they know about an organisation with the values they think are important for this type of organisation. If peoples' opinions about an organisation's values are aligned with their values about appropriate behaviour for such an organisation, a favourable reputation will emerge.	Bromley (2001); Lloyd (2007); Mahon (2002); Sherman (1999a); Walker (2010).
Corporate reputation is a socially shared impression; it is socially constructed.	Corporate reputation is a socially constructed cognition; it is socially shared; there is consensus among a social group.	Aula and Mantere (2013); Bromley (2002); Clardy (2012); Love and Kraatz (2009); Sandberg (2002)
Corporate reputation is a result of direct and indirect experiences, behaviour, symbolism and communication; as well as complex interrelationships and exchanges.	Reputation is an evaluation, based on the stakeholder's direct and indirect experiences with the organisation and its brand, as well as any other form of communication and symbolism that provide information (e.g. other people's information and influence through social networks). Stakeholders often make decisions even before they come into contact with an organisation and base their opinions on indirect experiences.	Bromley (2001); Clardy (2012); Ryder (2003); Smythe, Dorward and Reback (1992)
Corporate reputation is a result of a competitive (comparative) process.	Corporate reputation is the outcome of a competitive process in which organisations signal their key characteristics to stakeholders to maximise their social status. An entity's reputation is always determined in relation to that of rivals.	Fombrun (1996); Fombrun and Shanley (1990); Grunig and Hung (2002); Wartick (2002).
Organisations have limited control over their corporate reputation 'scores'.	Reputation is independent of the entity it represents and organisations thus have little to limited control over their own reputations.	Bromley (2001); Mahon and Wartick (2003); Smythe *et al.* (1992); Walker (2010).
Corporate reputations are stable and enduring. It is difficult to change, but can be easily lost.	Reputations are difficult to change. Research has found a drastic decline in peoples' openness to new information once a reputation has been formed. Although a good reputation is quite durable, reputations can be lost almost instantly through unfortunate action (e.g. a media crisis). Once lost, it is difficult to reclaim, and it takes time to rebuild.	Bromley (2001); Davies (2003); Gray and Balmer (1998); Herbig and Milewicz (1995a); Mahon (2002); Rhee and Haunschild (2006); Roberts and Dowling (2002); Walker (2010).

Element in definition	Description	Authors mentioning this element
Corporate reputation can be positive or negative.	A corporate reputation can be favourable or unfavourable.	Brown *et al.* (2006); Mahon (2002); Rhee and Haunschild (2006); Walker (2010).
For clients, corporate reputation is a reflection of how an organisation is evaluated in the marketplace.	Reputation reflects how well an organisation has done in the eyes of the market. It is established by fulfilling marketing signals. It is clients' overall evaluation of an organisation, based on their reactions to an organisation's services, and communication and interactions with the firm and/or its representatives or constituencies and/or known corporate activities.	Herbig and Milewicz (1995a); Walsh and Beatty (2007); Weiss, Anderson and MacInnis (1999).

Source: Compiled from a number of sources (see table).

2.2.2   A client-based definition of corporate reputation

Rhee and Haunschild (2006: 129) defined corporate reputation from a client perspective as the client's (consumer's) subjective evaluation of the perceived quality of the producer. This definition is in line with Fombrun's (1996) definition of reputation as an evaluation or a judgement, which implies that it is an attitude (Clardy, 2012; Gotsi & Wilson, 2001b).

Based on the stakeholder approach to corporate reputation, and viewing it as an attitude towards an organisation, Walsh and Beatty (2007: 129) defined the corporate reputation of a service organisation as '… the customer's overall evaluation of a firm based on his or her reaction to the firm's goods, services, communication activities, interactions with the firm and/or its representatives or constituencies (such as employees, management or other customers) and/or known corporate activities'. According to Caruana, Cohen and Krentler (2006), perceptions result in beliefs (knowledge, ideas and opinions), which in turn are important elements of attitudes. The main attribute of an attitude is its evaluative nature, and it consists of a tendency to respond favourably or unfavourably.

For the purpose of this study, **client-based corporate reputation** is defined as **an assessment and evaluation of the attractiveness of a service organisation's attributes by clients.**

2.3   CORPORATE REPUTATION MOVES INTO THE MAINSTREAM

Reputation was brought into the mainstream academic debate in the mid-1990s when fierce competition started among business schools to move up in the annual rankings of *Business Week*, *Financial Times* and the *U.S. News & World Report*. Those with a higher ranking received more funding by alumni, enrolled better and more students, and could charge a reputation premium (*The changing face of corporate reputation*, 2009).

Corporate reputation is a fast-growing field, based on the premise that favourable reputations result from actions that are aligned with the values and personality of organisations and that are

meaningful and valuable to key stakeholder groups. A strong corporate reputation is now recognised as a strategic asset and one of the few tools remaining to differentiate organisations. Proponents of this view suggest that a favourable corporate reputation can create a sustainable competitive advantage and have a significant effect on the organisation's performance (Agarwal *et al.,* 2014; Fombrun & Shanley, 1990; Hall, 1992, 1993). This is especially true for the service industry and knowledge-based institutions, where services are bought on trust (Dolphin, 2004; Tucker & Melewar, 2005; Fombrun, 1996). Authors such as Haywood (2002) and Sherman (1999a) suggested that corporate reputation is a very important determinant of competitiveness. Dowling (2006c) proposed that corporate reputation management starts with the board of directors, because the boards of many large companies have put the reputations of their companies at risk and continue to do that. According to him, corporate reputation is much like corporate culture; it is always present in the background, but does not appear on formal agendas as it should.

In the 1950s, when the concept of reputation was in its infancy, the focus was primarily on *image*. In the 1970s and 1980s, the emphasis shifted internally, focusing on *corporate identity, culture, personality* and *corporate communication*. More recently, since 1990, the focus has shifted to *corporate brand, corporate reputation* and *corporate marketing* as broader-based concepts. By this time, it was generally accepted that reputation was influenced by three factors, namely stakeholder experience of the behaviour of organisations, corporate messaging, and media and other external messages (Bennett & Kottasz, 2000; Larkin, 2003).

It is expected that organisations, as corporate citizens, implement ethical corporate practices when engaging with their stakeholders. The triple bottom line approach and the Balanced Scorecard instrument are examples of instruments of self-control by organisations. Key stakeholders increasingly demand transparency, open communication, and accountability on the part of companies as corporate citizens (Waddock, 1974). In 2002, a task force of the World Economic Forum signed a joint statement on Global Corporate Citizenship. This initiative highlighted corporate reputation as a business driver of good citizenship. Apart from the triple bottom line, other external assessments such as rankings have placed corporate reputation in the spotlight (Dowling, 2004a).

2.4   THEORETICAL UNDERPINNINGS OF CORPORATE REPUTATION

In social theory, a frame consists of a collection of anecdotes and stereotypes that individuals rely on to understand and respond to events and messages. People build mental filters through biological and cultural influences and use these frames to make sense of the world by taking 'mental shortcuts' (*Can reputation overcome perceptions?*, 2011). The **social constructionist view** of corporate reputation emphasises the multitude of perceptions that come together to form reputations. An individual's perceptions (such as reputations) are thus formed through a process of social construction (Aula & Mantere, 2013; Rindova & Martins, 2012). Reputation is also seen as

the outcome of the process of legitimation and is, therefore, socially constructed (Rindova, Petkova & Kotha, 2007).

The multiple stakeholder perspective forms the platform for much of the current thinking on corporate reputation. **Stakeholder theory** acknowledges that all groups that have a vested interest in the organisation are regarded as important. However, the theory also acknowledges that there are key stakeholders whose behaviour and decision-making have a particularly significant bearing on the success of the business (Davidson, 2003; Davies, 2003; Desmond, 2000). Many experts are of the opinion that every stakeholder group (clients, employees and investors/shareholders) will assess an organisation in a different way. As a result, organisations have many reputations, depending on the behaviour of the organisations and how organisations are experienced by these groups (De Castro, Sáez & López, 2004; Fombrun *et al.,* 2000; Helm, 2007a; Lloyd, 2007; MacMillan, Money, Downing & Hillenbrand, 2004; Mahon, 2002; Smaiziene & Jucevicius, 2010, 2013; Walker, 2010).

Consistent with stakeholder theory, some believe that corporate reputation can be measured indirectly – that is, through stakeholder relationships. In other words, reputations are formed as a result of a complex network of interactions and relationships between the organisation and its stakeholders, and among stakeholders themselves (Brønn, 2007; Grunig & Hung, 2002; MacMillan, Money & Downing, 2000; MacMillan, Money, Downing & Hillenbrand, 2005; Yang & Grunig, 2005).

R. Edward Freeman (1984) is regarded as the 'father' of the stakeholder concept. Although the concept developed in a number of disciplines such as systems theory, corporate social responsibility, strategic planning and organisational theory (Hatch & Cunliffe, 2006), Freeman integrated the stakeholder concept and moved the concept of stakeholders to the forefront of academic discussion. He broadened the view of the organisation beyond the objective of profit maximisation to include the interests of non-shareholders as well (Mahon & Wartick, 2003). Until the arrival of the stakeholder concept, many organisations considered shareholders as the only important stakeholder group. According to stakeholder theory, shareholders are but one key stakeholder group whose support should be sustained and whose interests should be nurtured. Accepting the stakeholder concept means that organisations should think in broader terms than just profit making for the benefit of one group (shareholders) at the cost of other stakeholders (Mahon & Wartick, 2003; Rindova & Fombrun, 1999; Roberts & Dowling, 2002). The idea that all stakeholders' opinions are important for the survival of the organisation is widely recognised (Agle *et al.*, 2008).

Corporate reputation has often been studied in terms of the **signalling theory**. The signalling theory is concerned with information asymmetry, which may result in poor decision-making (Spence, 2002). Stiglitz (2002) highlighted that for more than a hundred years economic models of decision-making were based on the assumption of perfect information, ignoring information

asymmetries. Information asymmetry occurs where one party is not fully aware of the characteristics of another (a lack of information on the quality of services can thus result in a lower reputation assessment by clients). Information asymmetry also occurs when one party is concerned about the other party's behaviour or behavioural intentions (for example, clients who are unaware of the behavioural intentions of an organisation toward its social environment) (Connelly, Certo, Ireland & Reutzel, 2011; Fombrun & Shanley, 1990). This perspective emphasises that reputations create value by providing information about attributes of organisations that are otherwise unobservable (Rindova & Martins, 2012).

Strategy scholars have focused on corporate reputation as an intangible asset within the **resource-based view** of the organisation (Galbreath & Galvyn, 2004). Reputation has been regarded as both *offensive* and *defensive*. According to the *offensive view*, reputation assists an organisation to improve its competitive position. This approach reflects a resource-based view of competitive strategy (Alsop, 2004; Dowling, 2004a; Mahon, 2002). The *defensive view* holds that reputation is a means to preserve an organisation's market position and its relationships with clients. According to this view, companies with a favourable reputation will receive at least some benefit of doubt from its stakeholders when faced with a crisis (Jones *et al.*, 2000; Mahon & Wartick, 2003). The 'father' of the resource-based view of the firm (RBV), Jay Barney (1991), argued that for a resource such as a corporate reputation to deliver competitive advantage to an organisation, it needs to possess four characteristics, namely value, rarity, imperfect imitability and non-substitutability (Deephouse, 2000; Flanagan & O'Shaughnessy, 2005; Roberts & Dowling, 2002).

The **institutional theory** examines the institutional context from which corporate reputations develop by gaining legitimacy and cultural support in their institutional contexts. The institutional view characterises reputation as the relative position of an organisation in a macro-culture (rankings) that arises from interactions between organisations and stakeholders, and that is mediated by powerful institutional intermediaries such as the media (Fombrun, 2012; Rindova & Martins, 2012). To be seen as legitimate, organisations have to make decisions and take actions within their institutional contexts (Deephouse & Carter, 2005; Walker, 2010).

According to the **agenda-setting theory**, the media plays a powerful role in setting the agenda for public discourse and directing the public's attention towards certain issues and personalities in organisations. The media are thus central in forming reputations of organisations (Fombrun, 2012; Carroll & McCombs, 2003).

Identity theory tells us that, over time, organisations seek to capture the essence and collective self-understanding of members of the organisations. Organisations thus focus on attempts to define themselves in terms of what is central, enduring and distinctive about them. Organisations consistently convey their cultural-specific, identity-consistent features to stakeholders.

Stakeholders then develop their own views and form a reputation from identity inputs as well as other sources (Fombrun, 2012).

2.5   THEORETICAL PERSPECTIVES FROM DIFFERENT DISCIPLINES

Corporate reputation has been studied from the perspectives of a variety of academic disciplines, each with a unique angle and approach, including economics, marketing, strategy, organisational development, accounting, psychology, governance and corporate communication (Aula & Mantere, 2008; Da Camara, 2006/2007; Larkin, 2003; Mahon, 2002; Shamma & Hassan, 2009; Wang *et al.*, 2003). The perspectives are summarised in Table 2.2. Balmer and Wilson (1998a, 1998b) and Lloyd (2007) are among those who agreed that these divergent perspectives have contributed to the confusion about corporate reputation, which have resulted in different definitions, different operationalisations, different underlying dimensions of corporate reputation, unique assessments from the perspective of different stakeholders (or general perspectives) and, with the obvious result, differing measuring instruments.

Modern studies of corporate reputation focus more strongly on stakeholder and relationship perspectives.

Table 2.2: Reputation research from different academic perspectives

Discipline	Research perspective
Organisational studies	Reputation is studied as a social phenomenon and portrayed as a valuable intangible resource that can provide an organisation with a sustainable competitive advantage, contributing to its success. Reputations are seen as the perceptions of multiple stakeholders, formed from information exchanges and various social factors. It is difficult to manage.
Organisational behaviour	Reputation is studied in terms of culture and organisational identity, values, and the notion of internal stakeholders. Reputation is viewed as the sense-making experiences of employees or the perception of the organisation held by an organisation's internal stakeholders.
Accounting	Reputation is regarded as an intangible asset that adds value to an organisation. It is also seen as an asset that could or should be given financial worth and which answers for the gap between market value and reported earnings.
Economics	Reputation is viewed as a reflection of an organisation's past actions, which provides signals to external stakeholders. Economists view reputation as a signal that helps describe an organisation's expected behaviour. Reputation is studied in relation to product quality and price.
Strategy	Reputation is an intangible asset that can be managed and that acts as a source of competitive advantage and a barrier to mobility.
Corporate communication	Reputation is seen as a composite of corporate traits that help to form the relationship between an organisation and its stakeholders. Reputation plays a role in crisis management and the development of an organisation's image. Corporate reputation is seen as a collective construct that is a perceptual representation of an organisation's past actions and future prospects that describes the organisation's overall appeal to its stakeholders when compared to leading rivals.
Sociology	The interactions between the organisation, stakeholders and intermediaries are seen as important. Scholars have studied reputation as an asset in the marketplace of ideas. Reputation is viewed as an aggregate assessment by the relevant publics, based on knowledge from past actions. Performance of the organisation is assessed relative to expectations and norms in an institutional context.
Marketing	Reputation is viewed from the client or end-user's perspective and concentrates on how reputations are formed. Marketing now also studies the wider implications that extend beyond the organisation's relationship with clients. It regards reputation as the pictures of organisations in peoples' heads, often under the rubric of 'brand equity' or 'client equity'.
Psychology	From this perspective, reputation is an external perception and evaluative assessment.
Corporate social responsibility	The focus is on reputation with regard to the management of issues and dealing with stakeholders.
Public relations	Public relations scholars have pursued similar paths as corporate communication in framing reputation as an element in public relations and public affairs.
Reputation	A group of scholars has advanced reputation as its own distinct area of study.

Source: Aula and Mantere, 2008; Barney, 1991; Da Camara, 2006/2007; Fombrun and Van Riel, 1997; Larkin, 2003; Mahon, 2002; Wang *et al.*, 2003.

2.6   REPUTATION AND THE STATE OF GLOBAL BUSINESS

The modern global knowledge economy is characterised by intangible assets, such as reputation, brand, knowledge, competencies, innovation, leadership, culture and loyalty. Intangibles are

valued in balance sheets as 'goodwill' or 'intellectual capital'. According to Larkin (2003), a large percentage of the world's financial wealth is locked up in intangibles. The realisation has dawned that corporate growth and longevity require much more than successful transactions (Davies, 2003; Kitchen & Laurence, 2003).

In the last decade or two, corporate reputation has appeared on the radar screens of most companies and their boards of directors. One reason for this phenomenon is the negative publicity companies received as a consequence of well-known corporate scandals (refer Enron, Arthur Andersen, WorldCom, Parmalat and many others). The reputations of large organisations suffered huge losses, including those of Exxon (the Valdez oil spill), Perrier (benzene traces in bottled water), Tylenol (deaths from tainted pills), the US Catholic Church (priest sex abuse), Martha Stewart OmniMedia (executive misbehaviours), Arthur Andersen (accounting scandals), the International Olympic Committee (bribery issues), Siemens (bribery), Toyota Motor Corporation (huge recalls of certain models) and BP (Deepwater Horizon disaster in the Gulf of Mexico in 2010) (compiled from: Bernstein, 2009; Dowling, 2004a, 2006a; Fan, Geddes & Flory, 2013; Fombrun, 2010; Fombrun & Low, 2011; *Going global: musings from Milan*, 2012; Greyser, 2009; Lange *et al.*, 2011). Also in South Africa, South African spice-producing companies came under the spotlight in 2005 for including the cancer-inducing agent Sudan Red in some of their products (Bechan, 2008).

Another reason for the focus on reputation was the worldwide economic crisis of the late 2000s (the collapse of the sub-prime mortgage market, massive stock-market falls and declining economic confidence). As a result of some of these incidents, it was predicted that it would be difficult for some banks and other companies to regain their reputations. People lost their trust in the financial markets. Another reason for the growing interest in corporate reputation has been the fundamental questions asked about the role that modern organisations play in society, their boards and their moral compasses (Bernstein, 2009; Greyser, 2009).

Especially in the last number of years, the business world has been characterised by economic disruption, failed financial institutions, a loss of trust, cracks in the foundations of capitalism, a widening disparity in income and climate change, to name a few. Clients, among other stakeholders, are calling for transparency, accountability and social and environmental responsiveness. As a response, organisations are rethinking their roles in society and their social responsibilities (Mirvis, 2012).

One outcome of damaging encounters with stakeholders, unethical business practices, fraudulent activities, accounting scandals, ethical issues and bad publicity has been a loss of trust in organisations and their leaders. Another outcome was the imposition of more surveillance and compliance measures such as the Sarbanes-Oxley legislation in the USA in 2002 and the Higgs Reports in the UK, which has been incorporated into the Combined Code. According to many, reputation is built on trust and belief. In the modern world, though, there is often a climate of aggressive anti-business activism, suspicion, scepticism, pessimism, blame, uncertainty, cynicism

and a lack of trust in government, in business and in authority. Corporate reputations are under constant pressure and under attack, and this climate is fuelled by the media, the internet, social media and by the behaviour of NGOs and pressure groups (Bennett & Kottasz, 2000; Davies, 2003; Eccles, Grant & Van Riel, 2006; Fombrun, 2010; Firestein, 2006; Greyser, 2009; Kitchen & Laurence, 2003; Tucker & Melewar, 2005).

Nowadays, 200 corporations account for 23% of the world's GDP, while 51 of the top 100 economies in the world are corporations (*Why CSR matters in 2010,* 2010). Stakeholders are increasingly interested in the way large corporations behave. Corporate ethics and values are being scrutinised and stakeholders like clients, investors and employees are more demanding than ever before. Stakeholders are quick to judge and slow to forgive. People seem to demand integrity and honesty after a few decades of fraud, manipulation and lies. Ethics and stakeholder democracy are the new buzzwords in corporate boardrooms and business schools (Alsop, 2004; Bechan, 2008; Kartalia, 2004; Kitchen & Laurence, 2003). The New York-based Reputation Institute talks about the *reputation economy* – a place where people care more and more about the organisations behind the products and services they buy (*Welcome to the reputation economy, where reputation management is not optional*, 2011).

David Jones, CEO of Havas, had the following to say about the future of reputation and competitiveness:

> '[Stakeholders] will reward those businesses and brands that stand for a purpose beyond profit; that collaborate with them rather than try to control them; that listen to them rather than talk at them; that are obsessive about having a better reality, not a better image; that put social responsibility at the centre of a business strategy, not in a silo. Transparency, authenticity, and speed will be the rules of the game… Business will be open. Business will be "good"' (Jones, 2012: 169-170).

According to the Global Reputation RepTrak™ Pulse 2010 survey of the Reputation Institute, a study of corporate reputations in the world covering more than 1 000 companies in 24 industries in 27 countries among 15 stakeholder groups (*The world's most reputable companies 2010*, 2010), the global financial crisis of the 2000s caused corporate reputations to take a beating. The seven dimensions that are measured in the RepTrak™ survey are: performance, products and services, leadership, citizenship, governance, workplace and innovation. The Global RepTrak™ 100 study of 2013 indicated that the perception of the organisation itself rather than its products and services shapes the reputation of the organisation (*2013 Global RepTrak™ 100 results,* 2013).

South Africa is one of 27 countries where the corporate reputations of companies are measured annually by RepTrak™. In 2013, Vodacom topped the list, while Woolworths was first in 2012. In 2013, Woolworths was in second and First National Bank in third place. In 2013, *Products and*

Services was the most important dimension of reputation, with *Innovation* the second most important one (*South Africa RepTrak™ Pulse 2013,* 2013).

Customers are no longer only concerned with the functionality and price of products and services, but also with the environmental, social and ethical aspects surrounding organisations. While clients' expectations with regard to service quality, value and access are rising rapidly, these concerns influence their purchasing behaviour (Nakra, 2000; Pruzan, 2001).

With the emergence of the reputation economy, research shows that more than half of the recommendations and advocacy from clients happens because of what an organisation stands for and not because of service features and benefits (*RepTrak^{TM} model evolution*, 2012). Modern organisational leaders are forced to abide by new business norms that put enormous amounts of power in the hands of their once passive clients (*Crowdsourcing reputation: When it comes to issues management, social media hands over 'power to the people'*, 2010-2011).

2.7   REPUTATION AS STRATEGIC ASSET

2.7.1   Corporate reputation as a co-producer of business success

Various experts in the field of corporate reputation have confirmed that corporate reputation is of critical strategic importance. A favourable corporate reputation has become a tool in corporate leadership and an important measure of business success and survival. A positive corporate reputation is regarded as one of an organisation's most valuable strategic assets, because it is distinctive and non-substitutable. Having a strong reputation is vital in creating a sound basis from where the success of the organisation will eventually come (see discussions by Davies, 2003; Eberl & Schwaiger, 2005; Fombrun, 1996; Keh & Xie, 2009; Roberts & Dowling, 2002; Shamma & Hassan, 2009; Wang *et al.*, 2003).

2.7.2   Corporate reputation as intangible asset and source of competitive advantage

The fundamental focus of strategy is how an organisation can gain an advantage over competitors that is sustainable over time. According to Schwaiger *et al.* (2011), the last decade was characterised by a growing interest in the study of intangible assets as contributors to a competitive advantage.

The interest in corporate reputations as intangible assets originates from the questions whether, and to what extent, reputation plays a role in establishing and maintaining a competitive advantage. In the market for products and services, the criteria for success have been quantified in the form of market share, profitability, return on equity, and the like. As far as an advantage in the marketplace of ideas (or the non-market arena) is concerned, the standards are not as clear. The non-market arena includes the political, regulatory and social arenas. For example, there has been a growing interest in corporate citizenship in the market of ideas, and although the standards of performance are still being developed, it is widely accepted that sound corporate citizenship leads

to a competitive advantage. The same is true for reputation. The case of Andersen at the time of the Enron disaster serves as an example. The clients of this organisation did not abandon it because of the poor quality of services or higher prices (the realm of the market of goods and services), but because they did not wish to be associated with an organisation of questionable reputation and ethics (the market of ideas) (Mahon, 2002).

A growing body of literature demonstrates that corporate reputation represents a knowledge-related resource that leads to a more enduring sustainable competitive advantage than intellectual and physical property. These knowledge-related resources, such as reputation, result from the possession of unique capabilities within organisations that are difficult for competitors to observe, change or imitate. Intangible resources such as reputation are very important because they are mutually enhancing and have the potential to create value. Reputation is regarded as one of the most important intangible resources that make a substantial contribution to business success (Carmeli & Tishler, 2004; Eberl & Schwaiger, 2005; Gardberg & Fombrun, 2002; Gotsi & Wilson, 2001a; Kaplan & Norton, 2004; Olavarrieta & Friedmann, 1999; Raithel, Wilczynski, Schloderer & Schwaiger, 2010; Rao, 1994; Walsh, Mitchell, Jackson & Beatty, 2009; Zabala, Panadero, Gallardo, Amate, Sanchez-Galindo, Tena & Villalba, 2005).

The 'father' of the resource-based view (RBV) of firms, Jay Barney (1991), argued that for a resource to deliver competitive advantage to an organisation, it needs to possess four characteristics:

- It must have a value.
- It needs to be rare.
- It must be imperfectly imitable (because of its possession of unique historical conditions, its causal ambiguity and its social complexity).
- It must be non-substitutable.

To deliver a competitive advantage, a resource must thus be able to exploit an opportunity or be able to defend against a competitive threat. It also suggests heterogeneity or firm-level differences. Most scholars claim that only intangible resources can explain performance heterogeneity, and are thus the only likely sources of competitive advantage. Favourable reputations are considered one of the most important sources of competitive advantage because they are rare, they depend on difficult-to-duplicate historical settings, they are socially complex because of the development of complex relationships with stakeholders over time, and thus they are imperfectly imitable (Dierickx & Cool, 1989; Roberts & Dowling, 2002; Olavarrieta & Friedmann, 1999). Schwaiger *et al.* (2011: 61) concurred with this view and demonstrated that the share of intangible assets of large corporations rose from 25% to 75% between 1980 and 2002.

As discussed above, strategy scholars have focused on reputation as an intangible asset within the resource-based view of the organisational framework (Boyd *et al.,* 2010). Some viewed reputation

as a means to assist an organisation in improving its competitive position. Others viewed reputation as a means to maintain and build an organisation's market position and its relationships with clients. In the case of the latter, organisations with a favourable reputation will receive some benefit of doubt from its stakeholders during times of turmoil, uncertainty or crisis (Coldwell, Joosub & Papageorgiou, 2012; Jones *et al.*, 2000; Mahon & Wartick, 2003). Dowling (2004a) pointed out that some organisations use corporate reputation to gain a competitive advantage. This approach reflects a resource-based view of competitive strategy. Not all companies, though, follow this approach and for them corporate reputation is 'useful' rather than 'strategic'. According to Dowling (2004a), reputations are of strategic importance because they set the expectations of stakeholders and competitors, and they establish the standards of acceptable behaviour. A favourable reputation helps people to self-select the organisations they want to associate with or to avoid.

Because this study focuses on corporate reputation from a client perspective, it is important to take note of studies where clients (customers) were chosen as the stakeholder group to be studied. In the study of Walsh *et al.* (2006), which was done in the service industry in Germany, it was found that corporate reputation and client satisfaction were strongly related (see also Walsh & Beatty, 2007). A good reputation can improve client confidence in the organisation's products and advertising claims (Fombrun & Van Riel, 1997), it can increase word-of-mouth recommendations (Walsh, Mitchell, Jackson & Beatty, 2009) and it can contribute to clients' loyalty (Kristensen, Martensen & Gronholdt, 1999; Walsh & Wiedmann, 2004).

The quality of a service is more difficult for clients to pre-evaluate than the quality of a product, and for this reason they would be more inclined to rely on the reputation of the organisation when judging its services before they purchase. Clients assign an increased value to a service because of a favourable corporate reputation (Bromley, 2001; Olavarrieta & Friedmann, 1999; Walsh, Mitchell, Jackson & Beatty, 2009; Wang *et al.*, 2003). Where knowledge is highly valuable, perceptions such as corporate reputation matter even more (Fombrun & Low, 2011).

2.7.3   Corporate reputation and financial performance

Over the years, researchers have studied the relationship between corporate reputation and indicators of financial performance extensively. Many of these studies used data from *Fortune's* Most Admired Companies surveys.

Recent work in the field has investigated the causal direction of the link between financial performance and corporate reputation, and some of these studies have suggested the existence of a two-way relationship. In their survey of the current literature, Sabate and Puente (2003) pointed out that the lack of a theoretical framework and methodology is a barrier to enabling researchers to establish the nature of this two-way relationship.

Various studies demonstrated a relationship between reputation and several measures of prior financial performance. Most researchers concurred with the view that past financial performance is one of the determinants of corporate reputation (Ang & Wight, 2009; Roberts & Dowling, 2002; Vergin & Qoronfleh, 1998). Rose and Thomsen (2004) investigated the relationship between an organisation's reputation and financial performance, and reached the conclusion that corporate reputation did not have an impact on the market-to-book value of equity, but that financial performance improved corporate reputation. The latter, however, might influence stock market performance indirectly via profitability and growth.

A number of studies demonstrated the relationship to be working in the opposite direction and showed that a strong, positive reputation can significantly enhance financial performance and impact bottom-line profitability. Several studies showed a positive relationship between reputation and one or more indicators of financial performance (see discussions in Dowling, 2006b; Fombrun, 2000; Gardberg & Fombrun, 2002; Kim, 2000, 2001; Roberts & Dowling, 2002; Ruth & York, 2004; Williams, Schnake & Fredenberger, 2005). The study of Sánchez, Sotorrío and Díez (2012) showed that Spanish organisations with a strong reputation recorded better financial results than those with a poor reputation, before and during the global financial crisis following the 2007 crash.

It has been suggested that between 8% and 15% of an organisation's share price may be attributed to corporate reputation, and that organisations can expect to add at least 3% and up to 7,5% per annum to their sales growth by improving their reputations. Researchers also found that organisations with top corporate reputations in the USA performed significantly better than others in terms of market share and share values. A favourable reputation is of even greater importance to service organisations because of its intangibility (Cooper, 1999; Davies, 2003; Kitchen & Laurence, 2003). The *2013-2014 Reputation Dividend Study* (2014) in the UK demonstrated that the combined value of reputations across FTSE350 companies was £911 billion at the start of 2014. Unilever, Diageo and Royal Dutch Shell were examples of UK-listed companies with over 54% of their market capitalisation contributed by reputation.

Various researchers studied the relationship between corporate reputation and financial or economic outcomes. Verčič and Verčič (2007) found that two companies could be equally successful financially with significantly different reputations. Flatt and Kowalczyk (2008) found that organisational culture was a predictor of corporate reputation and that reputation acted as a mediating variable between culture and financial performance. Deephouse (2000) found that an organisation's media reputation was predictive of the organisation's return on assets, while Roberts and Dowling (2002) found a positive relationship between organisational reputation and return on assets. Siano, Kitchen and Confetto (2010) argued that reputation – which is a different kind of capital – is an important intangible strategic resource and therefore it should be managed in the same way as financial resources/capital. Fang (2005) studied the relationship between the reputation of an investment bank and the price and quality of bond underwriting services, and

found that reputable banks obtained lower yields and charge higher fees, but that issuers' net proceeds were higher. The results also suggested that banks' underwriting decisions reflect reputation concerns and that those economic rents are earned on reputation. Gabbionetta, Ravasi and Mazzola (2007) studied security analysts in Italy and found that the extent to which this group liked, admired and trusted an organisation mediates the influence of the other dimensions of reputation such as financial performance and leadership quality.

2.7.4   Reputational capital

Accountants have traditionally attributed part of the market value of a company to goodwill – this being the portion of market value that exceeds the tangible assets of a company. The benefits of a favourable reputation plays out in the excess value investors are willing to pay for the company's shares – the amount by which the market value exceeds the book value of its assets (Jackson, 2004). A company's good name forms part of the intangible wealth that is closely related to what accountants call 'goodwill' (Aula & Mantere, 2008) and marketers call 'brand equity'. A leading academic in the field of corporate reputation, Charles Fombrun (1996), invented the term 'reputational capital' to describe this excess value. An organisation with a large stock of reputational capital has an advantage over competitors (Grunig & Hung, 2002).

Fombrun and Van Riel (2004) described reputational capital as an intangible asset that forms part of the market value of a company. Preston (2004) differed from this view and argued that reputation should fall under categories of corporate social capital that are receiving increasing analytical attention. Fombrun (1996) concluded that one way of estimating reputational capital was to assess the value of royalty payments over a given period. According to Davies (2003: 65-66), royalties on licences paid for the use of a corporate name range between 5% and 15%, while Larkin (2003: 8) argued that the percentages that licences carry vary between 8% and 14%.

Riahi-Belkaoui (2004) investigated the role of reputation to explain the relative market value compared to the accounting value of multinational companies, and reached the conclusion that increased multi-nationality corresponds with a higher valuation of the organisation if the corporate reputation is high.

All over the world, there is growing concern that the current method of reporting in financial statements does not provide a clear and true picture of a company's state of affairs. A need is often expressed for the inclusion of intangibles to better reflect the real financial situation of a company. The much talked about gap between book value and market value increasingly questions the relevance of traditional accounting practices to business decision-making. In recent years, triple bottom line accounting and value-reporting have been initiated to develop new categories of intangible capital for management attention (Larkin, 2003; Power, 2001; Cravens, Oliver & Ramamoorti, 2003).

2.8   INPUTS CONTRIBUTING TO CORPORATE REPUTATION (ANTECEDENTS)

The early work on corporate reputation was dominated by scholars stating that marketing and communication was the source of a favourable reputation. Later on, marketing and communication were integrated with human resources management (Friedman, 2009) and corporate strategy. Reputation was conveyed to outsiders by the organisation (Burke, 2011). Scholars now widely agree that corporate reputations start on the inside (Martin, 2009a, 2009b).

2.8.1   Antecedents of corporate reputation in general

Griffin (2002) and Lewis (2001) were two of many scholars arguing that, at any given moment, reputation is the product of a mix of the organisation's behaviour and communication and the stakeholders' expectations. Everything that an organisation does, or does not do, has a direct bearing on its reputation. The studies of Deephouse and Carter (2005) and Rindova *et al.* (2005) did groundwork to identify the antecedents (and consequences) of corporate reputation.

According to Gray and Balmer (1998), a favourable reputation requires much more than effective communication; it requires an admirable corporate identity (Alsop, 2004; Dolphin, 2004). Communicating more or changing the communication message of an organisation is unlikely to have a bearing on the reputations held by stakeholders. Changing the very basic organisational activities such as the work practices of frontline staff, product or service quality or the organisational culture may very well have a bearing on the reputation with stakeholders (Dowling, 1994). The research of Herbig and Milewicz (1995b) clearly indicated that mixed signals and mixed communication from organisations have a devastating effect on reputation and subsequently on credibility.

Fombrun (1996) argued that a favourable reputation develops from an organisation's uniqueness and from practices that cause stakeholders to perceive the organisation as credible, reliable, trustworthy and responsible. He observed that organisations that are doing well in managing their reputations emphasise the following:

i)   Distinctiveness (differentiation): Companies occupy a distinct place in the views of stakeholders (see also Fombrun & Shanley, 1990; Wæraas & Sataøen, 2013).

ii)   Focus: Companies have a core theme.

iii)   Consistency: Companies are consistent in their communications with stakeholders (see also Bechan, 2008; Williams *et al.,* 2005).

iv)   Identity: Companies are seen as genuine by stakeholders.

v)   Transparency: Companies are seen as open and forthright (see also Eccles *et al.*, 2006).

Ipsos MORI identified the 'building blocks of corporate reputation' (Worcester, 2009: 584-585). At the bottom of the pyramid is awareness (see also Williams *et al.*, 2005), followed by familiarity, favourability (Greyser, 2003) and trust, with advocacy at the top (see Figure 2.2).

Advocacy
- Finally, those who trust a company the most can be led to speak on its behalf

Trust
- Trust follows favourability; it can only be built once overall favourable opinion has been achieved

Favourability
- The next reputation hurdle is favourability

Familiarity
- In order to have a strong reputation, a company must be known and recognised

Awareness
- Awareness is the first block in reputation building

Figure 2.2: The building block of reputation

Source: Worcester, 2009: 584.

Researchers such as Fombrun (1996) and Lloyd (2007) identified various sources contributing to the formation of corporate reputation. These include:

i)   Identity inputs – internal communication, signals and behaviour from the organisation and external communication coming from outsiders (see also Fombrun & Shanley, 1990);

ii)   Image inputs or brand activities – images formed by stakeholder groups (see also Jooste, 2009; Fombrun & Shanley, 1990); and

iii)   Performance inputs – audit data, news reports and investment analyses.

More common in the literature is Clardy's (2012) categorisation of the antecedents to corporate reputation:

i)   Direct (personal) experiences with or direct observation of the organisation – experience of the behaviour of employees, experiences with services, etc.

ii)   Indirect experiences of the organisation – hearsay or opinions about the organisation carried forward by intermediaries such as the media and analysts (see also Bechan, 2008; Fombrun, 2012; Williams *et al.*, 2005)

iii)   Corporate communications and initiatives – advertisements, and other.

The study of Carmeli and Tishler (2005) provided evidence that services that meet clients' expectations and ensure clients' satisfaction are prerequisites for the creation of a favourable corporate reputation. High-quality products/services on their own would not accomplish clients' satisfaction.

People sometimes form impressions, make decisions and act based on very limited information or on the opinions of others. They form impressions from everything – the organisation, its employees and what other people say about an organisation, how the organisation behaves, and the strategies it tries to implement. They sometimes have not had any direct contact with the organisation. It is not factual knowledge alone that creates the sense among stakeholders that they know an organisation. The reputations of companies are constantly assessed by different stakeholder groups and these assessments are made public in various ways – through public forums, the media, media surveys and clients' buying behaviour. The media, in particular, plays an important role in spreading the word about organisations' reputations. The cycle continues, because stakeholders also learn about companies from a variety of sources, some of which are very difficult to manage and control, like the media (Aula & Mantere, 2008; Fombrun & Shanley, 1990; Lewis, 2001; Sjovall & Talk, 2004).

Fombrun and Rindova (2000) identified three social processes from which reputation is formed:

i)   An *environmental shaping* process through which companies strategically target and influence stakeholders

ii)   A *signal refraction* process through which intermediaries such as journalists and financial analysts, who specialise in evaluating companies, relay interpretations to stakeholders; and

iii)   A *collective assessment* process that aggregates individual assessments of companies into reputational halos.

Gotsi and Wilson (2001a) stressed that employees play a pivotal role in forming and sustaining a corporate reputation. They are in constant contact with other stakeholder groups such as clients and are able to protect and enhance their organisation's reputation, or not.

In summary, contrary to what was believed in earlier days, corporate reputation is not formed from an organisation's communication and corporate branding efforts. Direct and indirect experiences with the organisation and the interventions of intermediaries such as the media seem to have the largest impact.

2.8.2   Antecedents of corporate reputation from the perspective of clients

Clients (customers) form perceptions from their personal experiences with the organisation and its products, services and staff, as well as information gained from the media and from other people. Several authors have indicated that the direct and indirect experiences and personal interactions that clients have are the main drivers of reputation with clients. When clients interact with an organisation, they often lack the capacity or inclination to collect accurate organisation-related

information. In such cases, reputation becomes a surrogate indicator of the quality of goods and services (Clardy, 2012; Dolphin, 2004; Fombrun & Van Riel, 2003; Kitchen & Laurence, 2003; Roberts & Dowling, 2002; Wang *et al.,* 2003; Yoon, Guffey & Kijewski, 1993). Walsh and Beatty (2007) made the important point that clients view service organisations differently than other stakeholders do and that their evaluation will influence their behaviour towards such organisations.

Corporate reputation, as opposed to service/product reputation, exists at corporate (umbrella) level. The corporate reputation would be valid for all services under this umbrella. Therefore, the original corporate reputation will be extended to new services (Caruana, 1997; Fombrun & Shanley, 1990).

Given the fact that service organisations are characterised primarily by their intangibility (Murray & Schlacter, 1990), some argue that for a service organisation a favourable reputation is even more important than it is for those marketing physical entities because a service is difficult to evaluate (Caruana, 1997; Dowling, 2004a). 'We're not like Coca-Cola where people buy the product off the shelf or in a vending machine,' says Joan Lollar of FedEx (Alsop, 2004: 5) when discussing the importance of this service organisation's reputation.

Clients of more reputable companies show increased confidence in the services of these companies and increased confidence in their advertising claims, and experience lower cognitive dissonance (Eberl, 2006; Goldberg & Hartwick, 1990; Lafferty & Goldsmith, 1999; Schwaiger *et al.*, 2011).

By implication, a favourable reputation is of special importance for a service organisation because clients' evaluation of the reputation of such an organisation would be valid for all services under the corporate umbrella, because of the intangibility of these services. Direct and indirect experiences with the organisation as well as personal interactions with staff seem to be the most important antecedents of corporate reputation.

2.9   AN INTRODUCTION TO THE CHARACTERISTICS OF CORPORATE REPUTATION

Any name has a reputation attached to it, and every entity, whether it is a person, an organisation, or a country, has a reputation, whether it wants this or not. Stakeholders evaluate these entities based on expectations, experiences, values and ideas, and thus ensure that a reputation gets confirmed or amended (Aula & Mantere, 2008; Larkin, 2003). Reputation thus lies in the eye of the beholder (Collin, Collin & Collin, 2001; Gray & Balmer, 1998).

According to the King III Report, published in South Africa, reputation is the sum total of impressions, that can be equated to a company's achievement and behaviour over time, and also how it is transferred to the various stakeholders. The King III Report is the general guideline for companies on corporate governance in the country (*King Code of Governance for South Africa*, 2009).

A very important key to a favourable reputation is how well an organisation takes care of the relationships with its various stakeholders. Some authors claim that reputation can be managed indirectly through relationships. The nature of the complex interactions, interrelationships and social networks of communication and influence among stakeholders in specific contexts and around issues are important in the formation of reputation by stakeholders. These interactions take place separately from those initiated by the organisation. The fulfilment or non-fulfilment of expectations also plays a major role. A favourable reputation is constructed, not necessarily through success and hard work, public relations or 'spin', but through appropriate organisational behaviour, organisation-public relationships and the experiences of stakeholders. The quality of relationship outcomes has a direct effect on the overall evaluation of an organisation and thus its reputation. A favourable reputation needs to be earned by reliable and responsible activities, services and/or products (see discussions in Aula & Mantere, 2008; Brønn, 2007; Doorley & Garcia, 2006; Grunig & Hung, 2002; Kitchen & Schultz, 2001; MacMillan *et al.*, 2004; Mahon, 2002; Yang & Grunig, 2005). Kottasz and Bennett (2014) demonstrated how attitudes towards the banking sector in Britain deteriorated sharply around a specific context and issue (after the financial crisis), leaving the sector with an unfavourable reputation.

Emotion also plays an important part in the evaluation of an organisation's corporate reputation. It is often argued that reputation is an emotional connection (the trust, admiration, good feeling and overall esteem people have for an organisation) and that it is underpinned by cognitive dimensions (*South Africa RepTrak™ Pulse 2013*, 2013).

How does one predict how well an organisation will do in terms of reputation? Which indicators are associated with reputation? Quagrainie, McCluskey and Loureiro (2003) found in their study that price premiums are good predictors of the strength of corporate reputations. Fombrun and Shanley (1990) claimed that corporate audiences take note of market, accounting, institutional and strategy signals when deciding about corporate reputations. Iyengar, Kargar and Sundararajan (2011) listed the following factors as reasons why organisations are achieving high reputation scores: size of the organisation, prior ranking on a 'most admired' list and a high market-to-book value of shares. Each stakeholder group will have different needs and expectations that will determine how they evaluate the corporate reputation of an organisation. For clients, the quality of products and services is, according to leading researchers, probably the most important dimension of corporate reputation (Bechan, 2008; Fombrun, 1996; Fombrun & Van Riel, 2004; Greyser, 2003; Shamma & Hassan, 2009).

Companies have a multitude of reputations because each stakeholder group will attach importance to different attributes. Even if various groups agree on some attributes, each one will attach different weightings to the attributes. According to some, financial performance is less important with clients (Caruana, 1997). Lange *et al.* (2011) made the point that reputation entails that the organisation has a particular attribute of interest to the observer. Fischer and Reuber (2007: 57)

concurred with this view and called it the 'componential perspective' of corporate reputation. Helm (2007a) demonstrated in her research that the fundamental set of characteristics (criteria) applied by various stakeholder groups in assessing corporate reputation is rather similar. According to her, differentiation emerges in the evaluations of the various aspects of reputation and in the overall reputation score these different groups assign to an organisation.

Various studies have shown that corporate social responsibility (CSR) has an impact on both reputation levels and the bottom line (Wilson, 2003). The many CSR-driven acquisitions are a telling indicator of this. The Body Shop has been acquired by L'Oreal, Stonyfield Farms by Groupe Danone, Green and Black's by Cadbury Schweppes, and Ben & Jerry's by Unilever. They all found homes in mainstream businesses (*Why CSR matters in 2010,* 2010). In their study, Schnietz and Epstein (2005) demonstrated that a reputation for social responsibility protects firms from financial losses in a corporate crisis. Zyglidopoulos (2003) found that companies' reputation for social performance is determined by societal expectations regarding a given issue. Companies will thus enhance their reputations if they perform according to expectations regarding a societal issue.

In The Trust Barometer of Ask Afrika, which is published by *Finweek* in South Africa and which measures the reputations of large companies, *Leadership* emerged as the most important aspect of reputation in recent years. These results mark a shift in emphasis away from *Management quality* to *Leadership*, compared to the results of 2007 and 2008, and even further away from *Strong brand*, which was the most important indicator in 2005 (De Beer, 2008; Jooste, 2009).

Some authors identified more or less the same basic set of dimensions (products/services, innovation, workplace, governance, citizenship, leadership and performance) that are believed to constitute a reputation, although gradual shifts take place in the importance of the different dimensions (Berens & Van Riel, 2004; *The changing face of reputation measurement*, 2010). Others, like Eberl and Schwaiger (2005), have identified additional dimensions, namely *Competence* and *Sympathy.*

The most common general attributes (characteristics) of corporate reputation that emerged from the literature are briefly summarised in Table 2.3. A detailed discussion of the dimensions previously identified by researchers follows in Chapter 6.

Table 2.3: The most common attributes (characteristics) of corporate reputation encountered in the literature

Attributes of corporate reputation	Attributes / Descriptors	Authors
Corporate leadership	The organisation is a leader in its field. The organisation shows vision and leadership.	Fombrun and Van Riel (2004); Lloyd (2011)
High-calibre management	The organisation has a management team that is adaptable, manages risk, has a good standing and behaves according to stakeholder expectations.	Greyser (2003); Lloyd (2007); Sherman (1999a)
(Current) financial performance	The organisation has a strong financial standing; there is consistent returns on investment; the organisation is profitable and is a valuable long-term investment.	Fombrun et al. (2000); Fombrun and Van Riel (2004); Greyser (2003)
Non-financial performance	These include other achievements, competencies, quality outcomes and awards.	Lloyd (2007)
Overall organisational performance	Corporate reputation is one of the key assets to ensure improved organisational performance	Agarwal et al. (2014)
Prior performance	In the past, the organisation performed well financially and non-financially.	Williams et al. (2005)
Potential performance	The organisation has the potential to perform in future.	Williams et al. (2005)
Overall risk profile	The organisation is not prone to risks (financial and other).	Williams et al. (2005)
General corporate ability (including progressiveness)	The organisation is considered to be able to perform well in general.	Brown and Dacin (1997)
Social and environmental responsibility	The organisation is environmentally and socially responsible. It is involved in philanthropic and community activities and follows responsible environmental practices.	Anand (2002); Brown and Dacin (1997); Fombrun (1996); Fombrun and Van Riel (2004); Helm (2005); Williams et al. (2005)
Credibility	The organisation is credible.	Fombrun (1996)
Trustworthiness	The organisation can be trusted.	Fombrun (1996)
Sustainability	The business is sustainable.	Jooste (2009)
Honesty, integrity, transparency, ethical	The organisation is honest, has integrity and behaves transparently; it does business in an ethical way.	Bechan (2008); Lloyd (2007)
Strong governance	Strong governance is entrenched in the culture of the organisation.	Bechan (2008)
Adherence to laws and regulations	The organisation adheres to laws and regulations.	Williams et al. (2005)

Attributes of corporate reputation	Attributes / Descriptors	Authors
Vision and leadership	The organisation has good leadership in place, with a compelling vision for the future.	Fombrun *et al.* (2000)
Market leadership	The organisation's products and services are market leaders.	Greyser (2003)
Well differentiated products and services	The organisation offers well differentiated products and services.	Greyser (2003)
(Quality of) products and services	The products and services of the organisation are characterised by quality, soundness and safety.	Fombrun *et al.* (2000); Fombrun & Van Riel (2004); Lloyd (2007)
Client focus; responsiveness to client needs	The organisation is committed to clients and is known for its quality/good client service.	Greyser (2003); Helm (2005);
Value for money	The organisation offers good value for money.	Fombrun (1996); Helm (2005)
Reliability	The organisation is able to deliver the same product and service repeatedly.	Fombrun (1996)
Knowledge and skills	The organisation's staff has the required knowledge and skills.	O'Brady (2003)
Innovation	The organisation shows innovation in its products and services and general operation.	Cravens *et al.* (2003)
Support of social and other initiatives	The organisation uses sponsorships of major events effectively.	Bechan (2008); Greyser (2003); Sherman (1999a); Williams *et al.* (2005)
Corporate culture	The organisational culture is conducive to innovation and success.	Greyser (2003)
Workplace environment	The organisation treats its staff fairly and has high-quality employees.	Fombrun *et al.* (2000); Fombrun and Van Riel (2004)
Emotional appeal	People like/love the organisation.	Fombrun *et al.* (2000); Fombrun and Van Riel (2004)

Source: Compilation by researcher from a number of sources (in table).

2.10   THE SUSTAINABILITY OF CORPORATE REPUTATION

Schultz *et al.* (2001) found that reputations are durable and tend to reproduce themselves over time; they have staying power and are 'sticky' in spite of shifting ranking criteria and varying statistical methods. This stickiness of reputation especially applies to large companies. The study of Ravasi (2002) in Italy confirmed stickiness of reputation despite changing evidence.

Obloj and Obloj (2006) pointed out that the reputation of an organisation is not static, but gains or loses value depending upon the distance of a leading player from the followers, in other words in comparison to that of other organisations in the industry. Therefore, reputation should be analysed in the framework of the competitive dynamics of the market. Standifird (2003) found in a study in

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Poland that a perceived stability of an organisation's stock market results had a significant effect on the ability of the firm to establish itself as reputable.

Despite the staying power of reputations, they can be easily harmed in the face of a crisis. Exxon's Valdez oil spillage, Wal-Mart's buying from child-labour factories and Enron are examples of huge reputation losses (Lev, 2000; Vergin & Qoronfleh, 1998). Favourable reputations can thus be lost overnight and once lost, reputation cannot be restored easily. It is estimated that it takes seven to ten times the effort to restore a lost reputation than the effort to build it. In the case of Enron, its market value was $75.2 billion and its book value (balance sheet equity) was $11.5 billion in December 2000 – a market-to-book gap of almost $64 billion (Lev, 2002). This value disappeared overnight. The rapidity of Enron's decline illustrates the vulnerability of a company that loses its reputation (an intangible asset) and thus also its market value (Hake, 2005). A negative shock like in the case of Enron, which has a negative impact on the organisation's reputation, may affect other firms that are related to such an organisation, causing these firms to experience so-called reputation spill-over (Yu, Lester & Sengul, 2002).

Greyser (2003) and Bernstein (2009) were of the opinion that the most important factor when a reputation is lost is organisational behaviour running counter to stakeholder expectations – the gap between promise and performance.

Companies may decide to 'milk' their favourable reputations for short-term gains. These gains must be large enough to overcome the inevitable decline in its reputation. 'Milking' can be done on an infrequent basis only (Herbig & Milewicz, 1995b). An example of this is when an organisation goes ahead with a project that could endanger the environment despite the strong feelings of its stakeholders.

Table 2.4 summarises the factors that impact a sustained favourable corporate reputation.

Table 2.4: Factors impacting a sustained reputation

Factors	Impact on reputation
Corporate crisis (e.g. Enron, BP)	Huge negative impact; loss of reputation and market value
Position of the followers' and competitors' reputation	Up or down; balanced according to competitors
Change in organisational activities (e.g. better front-line service)	Positive impact
Mixed marketing signals	Negative impact
Corporate social responsibility (CSR); expectations of society	Reputation levels will be determined by delivery according to expectations; good CSR practices will lead to positive reputation
Transparency	Positive
Bottom line performance and sensible strategy	Positive
'Milking' (knowingly doing damage to reputation) for a short period	Decline in reputation; can be picked up if reputation levels have not gone too low

Source: Compiled from Alsop, 2004; Argenti, 2002; Bernstein, 2009; Eccles *et al.*, 2006; Schultz *et al.*, 2001; Schnietz and Epstein, 2005; Standifird, 2003; Williams *et al.*, 2005; Yu *et al.*, 2002.

2.11   OUTCOMES OF CORPORATE REPUTATION (CONSEQUENCES)

There can be little doubt that having a favourable reputation yields significant benefits to organisations, and that an unfavourable reputation can be harmful.

The reputations of organisations are constantly assessed by stakeholders, and these assessments are made public in various ways – through public forums, the media, media surveys and clients' buying behaviour. The media, in particular, plays an important role in spreading the word about organisations' reputations. The cycle continues, because stakeholders also learn about organisations from a variety of sources, some of which are very difficult to manage and control, like the media (Aula & Mantere, 2008; Fombrun & Shanley, 1990; Lewis, 2001; Sjovall & Talk, 2004).

2.11.1   Favourable and unfavourable corporate reputations

It appears as if the reputations of some organisations are under constant scrutiny. Corporate reputations have become more vulnerable than ever to criticism and attack from clients and other stakeholder groups such as anti-corporate pressure groups. These groups now have the ability to reach a global audience as a result of modern communication technologies. A crisis can bring an organisation into disrepute, which could endanger an organisation's future profitability, growth and survival (Alsop, 2004; Tucker & Melewar, 2005). In some cases – such as the sub-prime scandal in the banking sector in the USA – reputational damage resulting from a crisis can be fatal or close to fatal. Enron, Parmalat, Perrier and BP are well-documented examples of organisations that suffered severe reputational damage (Bernstein, 2009; Fombrun & Low, 2011; Greyser, 2009).

A favourable corporate reputation, on the other hand, can have several beneficial outcomes that have been well documented. These benefits include higher levels of positive word-of-mouth, and even the luxury of charging a price premium. Other benefits usually cited when describing the advantages of a positive reputation include high levels of trust among clients, lower risk perceptions among clients and potential clients, and higher entry barriers for potential competitors (Keh & Xie, 2009).

2.11.2   Strategic outcomes (benefits)

Recent years have seen increased emphasis on the value that a favourable reputation brings (Chetthamrongchai, 2010; Chun, 2005; Fombrun & Van Riel, 2004; Money & Hillenbrand, 2006a, 2006b). Stakeholder groups rely on the corporate reputation of companies when they make investment, career, product and other decisions. Reputations act as signals to stakeholders on how to compare a specific organisation's products, jobs, strategies and prospects to similar organisations. Reputation is the outcome of a competitive process among organisations in the same sector and industry, and this outcome crystallises the reputation of an organisation. A reputation is a value signal in the case of incomplete information as well as information overload. For example, financial performance is an important signal to stakeholders. There is a difference of opinion among researchers, though, on whether financial performance is an outcome of or input to corporate reputation (Dolphin, 2004; Greyser, 2009).

Each stakeholder group of an organisation selectively focuses on a different set of informational signals from companies. These reputational signals have an impact on the attitudes and behaviour of stakeholder groups that the organisation depends upon for its success – employees, shareholders, suppliers and others. Fombrun and Shanley (1990) suggested that researchers should pay attention to the longitudinal process through which reputations reach stability.

According to Deephouse (2000) and Rhee and Haunschild (2006), a favourable corporate reputation results in stakeholders contracting with an organisation. A favourable reputation also has strategic, economic and other benefits such as preference in doing business with an organisation (Fombrun, 2012) when products/services are similar (Greyser, 2003), differentiating on the basis of a good reputation and developing legitimacy (Burke, 2011), gaining support in times of controversy (Balmer, 1998), creating competitive barriers (Deephouse, 2000) and obtaining value in the financial marketplace (Roberts & Dowling, 2002). Other benefits include lowering of costs for the organisation (Fombrun, 1996), enabling the organisation to ask premium prices (Graham & Bansal, 2007), lowering the cost of capital (Little & Little, 2000), attracting and keeping talent (Burke, 2011; Turban, Forret & Hendrickson, 1998; Turban & Greening, 1996), attracting investors (Srivastava, Crosby, McInish, Wood & Capraro, 1997), attracting clients (Alsop, 2004; Caruana & Ewing, 2010) and increasing profitability (Roberts & Dowling, 2002).

Lewellyn (2002) and MacMillan *et al.* (2005) contended that the key objective of developing and maintaining a favourable reputation is the generation of goodwill in both the relational and the financial sense. The Reputation Institute's analysis also showed that if an organisation is able to improve its reputation by 5 points, the percentage of people who would positively recommend the organisation goes up by 7% (Fombrun, 2010).

2.11.3 Client-related outcomes

Walsh and Beatty (2007) were of the opinion that clients as a stakeholder group have been largely neglected in previous reputation studies, and pointed to beneficial client outcomes, such as trust and loyalty. Clients may have different expectations and perceptions of an organisation than the other stakeholder groups. These authors see reputation as the outcome of a competitive process in which an organisation signals its key characteristics to stakeholders in order to maximise its economic and non-economic status to gain an advantage over competitors

One advantage that reputable companies have is that they can extend their reputations to new products. Reputations can thus influence client loyalty to new products and offer inimitability to organisations (Bontis, Booker & Serenko, 2007). Clients are more likely to believe the advertising claims of organisations with a favourable reputation, leading to larger sales volumes (Dolphin, 2004).

The study of Cretu and Brodie (2007) showed that reputation differentiates clients' perceptions of product and service quality, financial value and loyalty. Fombrun (1996) argued that the effects of reputation on clients are the strongest in the service sector where differences between competitors are often unclear and judgements of quality are difficult to make due to intangibility. The name of a service organisation can inspire trust in clients because it signals integrity and credibility. The favourability, strength and uniqueness of the organisation's reputation serve as a proxy for the level of service quality and become important differentiators. A positive reputation is not only important in attracting new clients, but also in delivering value to existing clients. In the study of Hansen *et al.* (2008), it was demonstrated that reputation stands out as the most important driver of client perceived value (CPV).

Various authors have been of the opinion that reputation plays an important role in client loyalty as well as in the purchasing and repurchasing behaviour of clients (Fombrun, 1996; Nguyen & Leblanc, 2001). Graham and Bansal (2007) found that airline clients were willing to pay more for tickets of an airline organisation with a better corporate reputation. According to Walsh and Beatty (2007), the positive outcomes of corporate reputation are client satisfaction, loyalty, trust and positive word-of-mouth. Similar results were reported by Fombrun (1996), and Nguyen and Leblanc (2001), who found that reputation is an important determinant of loyalty. Helm (2007b) agreed with this finding, but pointed out that reputation has a direct influence on affective loyalty and an indirect influence on behavioural loyalty. Keh and Xie (2009) indicated that in the case of

clients, trust and identification with the organisation are two outcomes of a positive reputation. They also found that client commitment plays a mediating role between trust and identification on the one side and purchase intention and willingness to pay a price premium on the other side.

Research is indicating that purchasing decisions are influenced more by the reputation of the organisation behind the products and services than by the perceptions of the features of the products and services. The results of the 2011 annual RepTrak[TM] study showed that perceptions about the organisation explained 91% of people's purchase intentions (Fombrun & Low, 2011: 18). Clients take the sourcing and ingredients of products, carbon emissions, and how workers are treated in the supply chain into account. These days, clients make better informed decisions and obtain their information from the internet, blogs and social media. They reward the 'good' companies with purchases and punish the 'bad' ones (*Going global in the reputation economy*, 2012; Mirvis, 2011, 2012).

Susman (2011) agreed that a satisfactory client experience lies at the core of a favourable reputation. A satisfied client is an effective emissary – a source of goodwill and support for the organisation. Bontis *et al.* (2007) discovered that reputation is a partial mediator between customer satisfaction and loyalty, and also between satisfaction and recommendation. Client loyalty and the likelihood of client recommendation can be enhanced by a favourable reputation.

Purohit and Srivastava (2001) found that the reputation of a manufacturer is the most important cue for assessing the quality of a product, and that the reputation of the retailer also plays a key role when evaluating quality. Regardless of the reputation of the manufacturer, perceptions of product quality are higher when products are sold through a retailer with a favourable reputation. Similarly, when a product is available in various stores or the quality of various products is known to be equally good, products no longer offer differentiation. When this happens, the reputation of the retail organisation becomes the distinguishing factor that will lure clients into a shop (Fombrun, 1996).

2.11.4   The importance of relationships in outcomes

Over the past couple of years, researchers went much deeper into the reputation debate. Some of them attempted to set the agenda for future research.

MacMillan *et al.* (2005: 217-219) identified three basic questions, all related to the relationship between stakeholders (clients) and the organisation, which have to lead to three accompanying outcomes:

i)   *Reputation for what purpose?* The key aim of developing and maintaining a positive reputation is the generation of both relational and financial goodwill.

ii) *Reputation to whom?* A healthy and supportive stakeholder relationship is the mechanism through which reputation has a bearing on organisations. Key stakeholder groups (direct exchange stakeholders), namely clients, employees, suppliers, investors and government

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(representing the community), influence the long-term financial performance and the social standing of the business.

iii)   *Reputation for what?* The attributes of organisations that are important to each stakeholder group have to be identified and measured. Relationship issues are an important part of this (see also Lewellyn, 2002).

MacMillan *et al.* (2005: 220-221) offered a 'model of reputation in relationships', based on the 'model of business relationships' of MacMillan *et al.* (2000) (see Table 2.5). According to this view, reputation is embedded in relationships (in stakeholder perceptions of experiences of business behaviour and stakeholder commitment and trust) (see also De Castro *et al.*, 2004).

Table 2.5: The model of reputation in relationships

Reputation in relationships		The consequences of reputation
Stakeholder perceptions of experiences of business behaviour ➡	**Stakeholder commitment and trust** ➡	**Stakeholder intended behaviour towards a business**
• **Material and non-material benefits:** The benefits received in relationships • **Coercive power:** Whether the organisation is taking advantage of stakeholders and is using its coercive power • **Termination costs:** This is when stakeholders are evaluating the value of the relationship • **Shared values:** Are the values of a business received favourably and shared by stakeholders? • **Equity of exchange:** These are the behaviours that show equity and reciprocity towards stakeholders • **Communication:** The way of informing, listening, sending, evaluating and responding to stakeholder concerns • **Past trust-related behaviours of a business:** Keeping commitments to stakeholders; perceptions about whether an organisation has been honest in the past	• **Trust**: A future-oriented construct related to stakeholder expectations that the business will be reliable and dependable and will continue to act in their interest • **Commitment**: Believing is important and having either positive emotions such as satisfaction, caring and happiness or negative emotions such as anger, sadness and fear; a belief that the relationship is worth spending energy on • **Control mutuality**: Stakeholders' satisfaction with their amount of control • **Satisfaction**: Both parties feel favourably about each other	• **Creative cooperation**: The collective stakeholder intention to share information, use conflict in a functional way and seek mutually beneficial opportunities with a business • **Stakeholder loyalty**: Stakeholder retention (the intention and motivation to stay with the business and remain committed); stakeholder extension (whether stakeholders intend to put further effort into the relationship) • **Stakeholder compliance**: Stakeholders' intentions not to harm or take unfair advantage of a business • **Other trust-related behaviours**: Behaviours such as recommending a business and defending a business

Source: MacMillan *et al.*, 2005: 220-221.

The first two columns of Table 2.5 refer to stakeholder perceptions and represent the reputational component of the model. This model, according to the authors, goes beyond reputation as a

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perception and focuses on the perception of experiences in relationships and not macro issues such as leadership and financial performance. The first column represents stakeholder perceptions of organisational behaviour. The second column represents feelings toward an organisation, while the third column represents the outcomes or consequences of reputation. In this formulation, the experience and feelings (indicators) towards an organisation make up the reputation, while the behaviours constitute the consequences of reputation.

Grunig and Hung (2002) and Hon and Grunig (1999) subscribed to the view of MacMillan *et al.* (2005) and identified four indicators of successful relationships: trust (integrity, dependability and competence), control mutuality (satisfied with their amount of control), commitment (belief that the relationships are worth spending energy on) and satisfaction (both parties feel favourably about each other).

2.11.5   Outcomes of corporate reputation summarised

In the previous three sections, the general, strategic and client-related outcomes of reputation have been discussed. The corporate reputation body of literature confirms that a positive corporate reputation has many positive consequences for an organisation. In Table 2.6, the outcomes (consequences) of a positive reputation are summarised.

Table 2.6: Outcomes of a positive reputation

Outcome	Description
Market and clients	
Perceiving product and service quality	Reputation leads to perceived product and service quality.
Reducing trial periods	A positive reputation leads to shorter trial periods for new products.
Opening doors to markets	A positive reputation opens doors to new markets.
Enhancing competitive ability	An organisation with a good reputation can compete more effectively in the marketplace.
Charging premium prices	Clients are less price-sensitive to products of companies with a good reputation. This allows companies to charge premium prices.
Strengthening client loyalty	A good reputation keeps clients loyal.
Purchasing behaviour of clients	A good reputation plays an important role in the purchasing behaviour of clients.
Increasing sales and brand awareness	The sales and brand awareness of companies with a positive reputation are higher.
Paying less for purchases and suppliers	Companies with strong reputations pay lower prices for purchases.
Putting up entry barriers	Positive reputations act as barriers to entry into markets.
Influencing client choice, when everything else is equal	For companies that sell services that are functionally equivalent, corporate reputation can be a major factor, which influences consumer choice.
Facilitating easier choices	Reputation is important where the client has difficulty in understanding the functional differences of a service prior to purchase (e.g. business schools); in the services sector the reputation of the service provider may act to reduce risk.
Overcoming uncertainty	Reputation plays an important role when there is uncertainty about the underlying quality of an organisation's product or service offerings.
Contributing to clients' cross-buying intentions	Reputation contributes significantly to clients' cross-buying intentions and can restrain clients from buying from a competing supplier.
Increasing market share	A favourable reputation contributes to higher market share.
Financial	
Earning above-average profits	An organisation with a good reputation can earn more than average profits.
Creating organisation value	An organisation with a good corporate reputation has more value in the financial marketplace.
Creating value (investors / shareholders)	A positive reputation leads to an increase in shareholder value.
Gaining access to capital	Reputation ensures access to capital markets.
Reducing the cost of capital	The cost of capital is lower for organisations held in high repute.
Attracting investors	A good reputation attracts investors.

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Outcomes	Description
Strategic	
Enjoying a competitive advantage	Companies with a positive reputation enjoy a competitive advantage in their industries.
Attracting and keeping the best talent	A positive reputation attracts and retains the best staff; it also leads to higher productivity.
Benefiting from goodwill in a crisis; support in times of controversy	Reputations serve as reservoirs of goodwill, which is a form of insurance to companies. Companies with strong reputations face fewer risks when a crisis hits.
Reflecting the organisation's strategy, culture and values	Reputation serves to reflect the strategy, culture and values of the organisation.
Inhibiting the mobility of rivals	A positive reputation will inhibit the mobility of rival firms.
Other	
Attracting better business partners	A positive reputation attracts the best business partners.
Influencing regulation	A positive reputation minimises the threat of increased regulation or litigation.
Receiving advertising claims more favourably	It is easier for companies with a higher reputation to be credible when making claims in advertising.

Source: Compiled from the contributions by Argenti, 2002; Argenti and Forman, 2002; Caruana, 1997; Chaloner and Brotzen, 2002; Cravens *et al.*, 2003; Davies, 2003; Eberl and Schwaiger, 2005; Fombrun and Rindova, 2000; Greyser, 2003; Haywood, 2002; Jeng, 2008; Kitchen and Laurence, 2003; Kitchen and Schultz, 2001; Larkin, 2003; Nguyen and Leblanc, 2001; Roberts and Dowling, 2002; Schwaiger *et al.*, 2011; Wang *et al.*, 2003.

2.12   CONCLUSION

The purpose of this chapter was to provide an overview of corporate reputation and the current interest in the field, as well as the theoretical frameworks underpinning the construct. General and client-based definitions of corporate reputation were discussed.

Emphasis was placed on corporate reputation as an intangible asset and a source of competitive advantage for organisations. Although this study focuses on what constitutes corporate reputation (its attributes), this chapter also gave a picture of the antecedents of corporate reputation (inputs) and the consequences (outcomes) of corporate reputation.

It has become clear that corporate reputation is not well defined or understood at the present time. From the literature study it can be concluded that a significant amount of confusion still exists about what corporate reputation entails and how this intangible asset contributes toward organisational success. Due to this confusion, an investigation into the construct itself is not sufficient. The focus should also fall on related corporate or organisational assets because of the close relationships between these intangible assets.

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In the next chapter, the phenomena of *corporate identity, corporate image* and *corporate brand* will be discussed, although these concepts do not form part of the empirical study directly. The overlap and differences between these phenomena and *corporate reputation* will be investigated.

CHAPTER 3

CONCEPTS RELATED TO CORPORATE REPUTATION – CORPORATE PERSONALITY, CORPORATE IDENTITY, CORPORATE IMAGE AND CORPORATE BRAND

'He who steals my purse steals trash … but he that filches from me my good name … makes me poor indeed.'

- William Shakespeare, Othello

3.1 INTRODUCTION

In Chapter 2, the concept of *corporate reputation* was explored in detail. The significance of *corporate reputation* as an important intangible asset and source of competitive advantage, which is also linked to corporate success, came under the spotlight. The definitions of *corporate reputation* from the perspective of all stakeholders of an organisation were explored. Special emphasis was placed on the formulation of a definition of *corporate reputation from the viewpoint of clients* of large service organisations. The inputs (antecedents), attributes and outcomes (consequences) of the construct were also discussed. The conclusion was drawn that there is a need for thorough theoretical and conceptual development as well as for a valid instrument to measure this construct from the perspective of the clients of large service organisations.

In this chapter, the concepts of *corporate personality, corporate identity, corporate image* and *corporate brand* will be explored. The research and academic discussions on *corporate reputation* overlap largely with research on these related concepts. Therefore, the relationship between these phenomena and *corporate reputation* will be investigated, and the overlapping parts and points of differentiation will be highlighted.

This study does not attempt to include the concepts of *corporate personality*, *corporate identity*, *corporate image* and *corporate brand* when developing an instrument to measure client-based corporate reputation. However, these concepts do feature to some extent in certain dimensions of the reputation instrument and it is therefore important to take notice of them.

3.2 CORPORATE-LEVEL CONCEPTS

The concepts of *corporate identity, organisational identity, corporate image, corporate brand, corporate branding, corporate reputation, corporate communication* and *corporate-level marketing* are interwoven and widely used in business language (Balmer & Greyser, 2006). Balmer (2001a) and Balmer and Greyser (2003e: 3-5) called them the 'family of corporate-level concepts'. Because these concepts are interrelated, it is important to explore them for the purpose of this study and before considering a new measuring instrument for corporate reputation.

Both in academia and in practice, 'corporate-level' concepts such as *corporate identity*, *corporate image, prestige, goodwill, esteem, corporate brand* and *standing* are often used as synonyms for *corporate reputation*. Wartick (2002) confirmed the confusion between *corporate personality, corporate identity, corporate image* and *corporate reputation*. *Corporate brand* could be added to this basket of interrelated and often confused concepts.

Historically, the first stage in the development of the corporate-level concepts was the research undertaken on *corporate personality*, which examined the articulation of philosophy and the strategic management process. During the second stage, *corporate identity* came under the spotlight and the focus was on the communication process as a mode of portraying the organisation to its various audiences. During the third stage, *corporate image* became important, and the interface between *corporate identity* and *corporate image* was emphasised (Abratt, 1989; Bick, Jacobson & Abratt, 2003: 837).

3.3   CORPORATE PERSONALITY

Before an organisation can articulate itself through its identities, its personality needs to be understood (Markwick & Fill, 1997) because personality can be regarded as the DNA or starting point of what an organisation is all about (Roper & Parker, 2006; Ellwood, 2000).

3.3.1   Definition and starting point

Abratt (1989: 413) defined *corporate personality* as the sum total of the behavioural and intellectual characteristics of an organisation, from which *corporate identity* is generated (Balmer & Wilson, 1998a, 1998b). Balmer (2001a) regarded *corporate personality* as the fundamental element that gave an organisation its unique character. Brotzen's (1999) definition was in line with this thinking as he described *personality* as what the company is all about, its character and ethos. Bick *et al.* (2003) defined *corporate personality* as an amalgamation of all the subcultures in an organisation. It becomes clear that, according to some leading academics, *corporate personality* lies at the very core of the organisation.

3.4   CORPORATE IDENTITY

Corporate identity is receiving a significant amount of attention from business researchers and practitioners. In business conversations, the term is often confused with *corporate image*. *Corporate identity* is also closely related to *corporate reputation*.

3.4.1   The development of the concept of corporate identity

The concept of *corporate identity* has practitioner, marketing and graphic design origins. Among the first people to introduce this term were Lippincott and Margulies (1957). They defined *corporate identity* as the unique visual characteristics of an organisation, including nomenclature, logo and house style. In the early years of the development of this concept, the work of Olins (1989; 2003) was also significant. The concept of *organisational identity* was introduced to the mainstream of

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studies through the field of *organisational behaviour*, and its foundations lie in the seminal work of Albert and Whetten (2003) (see also Bick, Abratt & Bergman, 2008).

The persona of a company is known as its *corporate identity*, and this construct has been studied by a multitude of scholars over the years. Today, the study field of *corporate identity* is characterised by a managerial perspective and a stakeholder perspective, and the emphasis is placed on the abilities of *corporate identity* to position the organisation and the benefits it brings in terms of competitive advantage (He & Balmer, 2007). The concept of *corporate identity* was strongly promoted by the International Corporate Identity Group (ICIG), which drafted the Strathclyde Statement. This statement explains the nature of *corporate identity* and the reasons for its strategic importance to an organisation (Balmer & Gray, 2003b).

During the last couple of decades, the concept *corporate identity* has received the attention of prominent academics. Two prominent authors, Balmer (Balmer, 1998; Balmer, 2001a; Balmer & Gray, 2003b; Balmer & Greyser, 2003c) and Van Riel (Van Riel, 1992; Van Riel & Balmer, 1997) were of the opinion that *corporate identity* should be placed at the centre of an organisation's strategic management process. *Corporate identity* is often described as the glue that holds everything together (Brotzen, 1999: 195).

An important development in the area of *corporate identity* was the introduction of the corporate identity mix, being communication, symbolism and behaviour (Cornelissen & Elving, 2003).

Lambert (1989) presented a useful model of *corporate identity*, which he called the iceberg model of corporate identity. It has two levels, namely that which can be seen above the surface and that which is below. The visual elements (logo, name, colours and taglines) lie above the surface while communications, corporate structure and behaviour lie below the surface. A similar model is described by Moingeon and Ramanantsoa (1997: 383), which presents – as they put it – the 'French conception of corporate identity'. According to them, identity consists of a visible part (the symbolic products or culture) and a hidden part (the organisational imagery). This model goes further than the descriptive level and provides insights into the root causes of identity formation.

3.4.2   Definition and formation of corporate identity

The majority of definitions of *corporate identity* focus on what the organisation is (the reality) and what members perceive, feel and think about their organisations and how they wish their organisations to be perceived. In their seminal article, Albert and Whetten (2003) described three criteria for *corporate identity*, namely central character, distinctiveness and continuity over time. Gray and Balmer (1998) argued that *corporate identity* differentiated the company from all others and consisted of four elements: the company's strategy, philosophy, culture and organisational design. Centrality, distinctiveness, endurance, social construction, common understanding and self-presentation are some of the elements found in definitions of corporate identity. Table 3.1

summarises these common elements in the definitions of *corporate identity* described in the literature.

Table 3.1: Summary of elements in definitions of corporate identity

Element	Description	Authors
Central; the essence	Corporate identity is the central character of the organisation; the essence of the organisation; what it is; what it does; how it does it.	Albert and Whetten (2003); Balmer and Greyser (2003c); Van Rekom (1997).
Enduring/continuity of features	Corporate identity is that what is enduring about the organisation.	Albert and Whetten (2003); Dolphin (1999); Van Rekom (1997).
Distinctive/unique nature	Corporate identity is that what is distinctive/unique about the organisation.	Albert and Whetten (2003); Balmer (2001a); Gioia (1998); Markwick and Fill (1997).
Common understanding	Corporate identity is the common understanding about the organisation.	Dolphin (1999); Gioia (1998).
Socially constructed	Corporate identity does not exist naturally, but it is socially constructed.	Brotzen (1999).
Reflection of the behaviour, beliefs and values (reality)	Corporate identity is a reflection of the behaviour, beliefs and values (reality) of members about what in the organisation differentiates it from others.	Aula and Mantere (2008); Balmer and Gray (2003b); Balmer and Greyser (2003c); Kiriakidou and Millward (2000); Meijs (2002); Plowman and Chiu (2007).
Planned self-presentation	Corporate identity is a planned self-presentation to its internal and external stakeholders. The organisation creates an identity that it wants its stakeholders to perceive.	Van Riel (1992); Van Rekom (1997).

Source: Compiled from a number of sources, as indicated in the table.

An important contribution with regard to the various types of identities was made by He and Balmer (2007: 771-772), who identified four types of identities:

i)   *Visual identity* is the symbolism, including all visual cues, that distinguishes the organisation.

ii) *Corporate identity* is the distinctive attributes addressing 'what we are as an organisation', as communicated to stakeholders.

iii) *An organisation's identity* is the communal identity of an organisation (as perceived by beholders).

iv) *Organisational identity* is about an individual's salient social identity.

Hatch and Schultz (1997) argued that *corporate identity* is similar to *organisational identity*, but that the difference lies in the degree to which senior management influences *corporate identity* via its vision and strategy, while employees influence *organisational identity* with their perceptions,

feelings and thoughts (Hatch & Schultz, 2002). Dhalla (2007) argued that organisations have the opportunity to construct a strong *organisational identity*, which is likely to lead to a competitive advantage. Barney and Stewart (2000: 41) followed a similar line of thought and stipulated that *organisational identity* is a powerful organisational schema that defines 'what must be attended to'. Kiriakidou and Millward (2000) believed that *corporate identity* programmes are often used as marketing tools and focus too strongly on what top management wants the organisation to become (desired identity) and ignores the operational reality of the organisation (actual identity) (Balmer & Greyser, 2003d).

Actual identity refers to what the organisation is, reflecting the value orientation of the organisation, which frames the mind-sets and behaviour of members of the organisation. The differences between the identities of different parts of the organisation may bring about a new *corporate identity*. A new identity may evolve through a process of divergence and convergence of identities (Meijs, 2002). The employees of an organisation directly influence the *corporate identity* of the organisation. Therefore, for organisations to be successful, it is important that employees identify with the organisational goals and philosophy (Van Riel & Balmer, 1997; Kennedy, 1993).

Alessandri (2001) distinguished between a conceptual and an operational definition of *corporate identity*. Conceptually, *corporate identity* is an organisation's strategically planned and purposeful outward presentation of itself in order to develop a positive *corporate image*, and, ultimately, a well-established and favourable *corporate reputation*. In an operational sense, *corporate identity* is all the observable and measurable elements of an identity manifesting in its visual presentation and its behaviour towards stakeholders.

Melewar and Karaosmanoglu (2006) identified the following dimensions of *corporate identity*: corporate communication (controlled, uncontrolled and indirect); corporate design (corporate visual identity system and applications); corporate culture (philosophy, values, mission, principles, guidelines, history, founder of the company, country of origin, subculture); corporate behaviour (employee behaviour, management behaviour); corporate structure (brand structure, operational structure); industry identity and corporate strategy (differentiation and positioning strategy).

In the academic literature, **corporate identity is defined as that what is central, enduring and distinctive about an organisation** (Balmer, 2001a; Balmer & Van Riel, 1997; Bick *et al.*, 2003; Hatch & Schultz, 1997; Van Rekom, 1997), and for the purpose of this study, this definition is accepted.

3.4.3   Corporate identity reflects the organisation

Corporate identity is projected to stakeholders using a variety of cues and messages (Markwick & Fill, 1997). The main purpose of the *corporate identity* of the organisation to stakeholders is to reflect the values, beliefs and strategic direction of the organisation in such a way that it leads to a favourable reputation with stakeholders. It can help organisations communicate in which ways they

are similar to and different from their competitors. Establishing the desired *corporate identity* implies positioning the entire organisation (Meijs, 2002; Ravasi & Van Rekom, 2003; Stuart, 1999).

Many *corporate identity* programmes stem from a process of internal change (reorganisation, new top leadership) or external turbulence (mergers, decreased market share, privatisation). More often than not, people resist change and this resistance explains why *corporate identity* is very difficult to change over time. People are influenced by their cultural context, as well as by the fact that employees also identify with their other identities like their jobs, their professions and their divisions (Balmer & Wilson, 1998b; Hatch & Schultz, 1997; Van Riel & Balmer, 1997).

According to Christensen (1997) and Christensen and Askegaard (2001), much of the market-related communication of today can be characterised as auto-communication, where the organisation confirms and reinforces its own symbols, values and assumptions (its culture) (Jackson, 2004).

Important for the context of this study is that service organisations such as banks and airlines are more likely to present their identity unconsciously. Internal stakeholders (employees) unconsciously present *corporate identity* to stakeholders through their behaviour. Stakeholders tend to rely on the signals received from employees through employee behaviour (Otubanjo, Amujo & Cornelius, 2010).

Da Camara (2006/2007) pointed out that *corporate identity* is managed at two distinct levels: the tactical implementation of a visual identity (logos, advertising, website, colours, marketing materials, etc.) and the strategic implementation. The latter requires a thorough understanding of how behaviour and culture are developed by internal members and how *corporate identity* is influenced by the interaction with and feedback from external stakeholders.

3.4.4   The relationship between corporate identity, corporate image and corporate reputation

A close relationship exists between *corporate identity, corporate image* and *corporate reputation,* and this may be the reason why these concepts are still being confused and often used interchangeably (Barnett *et al.*, 2006; Wartick, 2002; Walker, 2010).

According to Hatch and Schultz (1997), *culture, identity* and *image* are interrelated parts of a system of meaning and sense making that defines an organisation to its stakeholders. *Corporate identity* (what the organisation is) is the basis from which practices and communication originate, and from which *corporate image* is formed. Because organisational members are also members of external groups, a two-way flow and interaction exists between *image* and *identity* (Alessandri, 2001; Dowling, 2001).

Christensen and Askegaard (2001) pointed out that identities and images are sometimes false representations of an organisation. Images are often developed in the absence of interaction with

or direct experience of the organisation. Therefore, images are sometimes called pictures; they are 'pseudo-realities'. Reality is further distorted by *corporate identity* representations such as advertising and other commercial communication. Organisations will typically want to project the formal constructed elements of the organisational identity (determined by management) and downplay the representations that have been formed informally by internal and external stakeholders (Alvesson, 1990; Dowling, 1993).

He and Balmer (2007) concluded that the concept of *identity* forms the foundation for the understanding of corporate-level concepts such as *corporate branding, corporate communications, corporate image* and *corporate reputation* (Agarwal *et al.,* 2014; Backhaus, 2011). According to Logsdon and Wood (2002) organisational identity should be the reference point for an organisation's reputation as it is one of the influences on reputation.

He and Balmer (2007) pointed out that current research in this area is increasingly multidisciplinary and that it is characterised by three shifts in thinking:

i)   A shift from peripheral elements (graphic design) to central elements (strategy, culture, structure);

ii)   A shift from an external focus (customers) to an internal focus (employees) and holistic focus (all stakeholders);

iii) A shift from a tactical to a strategic focus.

Corporate identity has a long history, which started with the visual elements that symbolise the organisation. Since the early days, the other two elements of the corporate identity mix, namely communication and behaviour, have grown in importance. The strategic implementation of *corporate identity* – the actual positioning of the organisation – is the most recent development.

3.5   CORPORATE IMAGE

Corporate image is a much talked about concept, which is often confused with *corporate identity* and *corporate reputation*. Most authors concur with the view that *corporate image* is what the organisation appears to be, once the *corporate identity* has been established and communicated to its various stakeholders (Dolphin, 1999). Some authors view *image* in a negative light and describe it as a simplified, synthetic and artificial picture of a complex reality (Aula & Mantere, 2008).

3.5.1   Definition and formation of corporate image

Researchers have defined *corporate image* in various ways over the years. The majority now views *corporate image* as an immediate mental picture of an organisation. Table 3.2 summarises the important elements that form part of the various definitions.

Table 3.2: Summary of elements in definitions of corporate image

Element	Description	Authors
Perception	Corporate image is a perception formed by stakeholders.	Cornelissen (2000); Hatch and Schultz (1997); Marguilies (1977); Markwick and Fill (1997).
Picture; mental interpretation	Corporate image is the picture that stakeholders have after they have received and decoded communication messages. Corporate image is the picture of an organisation as perceived by a stakeholder group.	Bennett and Kottasz (2000); Marguilies (2003).
Net result of feelings, beliefs, attitudes, impressions	Corporate image is the net result of the interaction of feelings, beliefs, attitudes and impressions in the minds of stakeholders about the organisation. Image is a product of impression formation.	Cornelissen (2000); Dolphin (1999); Hatch and Schultz (1997).
View of whole organisation	Corporate image is the way people view the entire organisation.	Barich and Kotler (1991).
Result of messages and encounters	Corporate image is the result of messages of, or encounters with, the organisation or other organisations, the media or other stakeholders.	Bernstein (1984); Hatch and Schultz (1997); Cornelissen (2000).
Meanings	Corporate image is the set of meanings by which an organisation is known and through which people describe, remember and relate to it.	Dowling (1986).
Reflection of identity	Corporate image is the reflection of the identity of the organisation.	Argenti (2002); Van Riel (1992).
Many images	Depending on the specific stakeholder group, the organisation can have many images.	Argenti (2002); Markwick and Fill (1997).

Source: Compiled from sources, as indicated in the table above.

The formation of a *corporate image* is influenced by the day-to-day interactions between internal members or internal stakeholders (employees) and external stakeholders (customers and others). This process is iterative and continuous (Cornelissen, 2000; Hatch & Schultz, 1997). Markwick and Fill (1997) made the point that the *corporate images* that stakeholders form are not merely an impression of the *corporate identity*, but that they are influenced by the behaviour of competitors, developments in industry and other environmental factors. *Corporate images* thus result from the interpretation of a range of perceptions, some of which seem to be generated by the organisation itself.

As each academic discipline uses its own terminology, Brown *et al*. (2006) attempted to clear up the confusion. Hence, they distinguished between *intended image* (what the organisation wants others to think of it) and *construed image* (what the organisation believes others think of it) (Da Camara, 2006/2007).

For the purpose of this study, **corporate image is defined as the perception (picture) that a specific stakeholder group – clients, in this instance – has of the organisation at a specific point in time.**

3.5.2   Corporate image and control

Stakeholders hold perceptions and form impressions about an organisation even before they have directly experienced it themselves. These perceptions are based on, among others, what they have heard about the organisation, the experiences of others, what they have read in the media and on the visual symbols they recognise (Argenti, 2002). Williams & Moffitt (1997) referred to personal, social and organisational factors that come into play when *corporate image* is formed.

There is consensus among researchers that it is impossible for an organisation to control its *corporate image*. It is also impossible for an organisation to take the decision to have a good image. An *image* is 'awarded' to the organisation by stakeholders after they have developed their own picture of it. Whether an organisation has a favourable or a poor *image* is determined largely by what it signals about its nature. Although it cannot be controlled, a *corporate image* can be shaped to a certain degree by the organisation by means of its communication, symbolism and behaviour (its *corporate identity*) at operational level. Various external factors also have an influence on the *image* created with stakeholders, such as the behaviour of competitors, socio-demographic trends, competitor strategies in the media, the conduct of organisational members and rumours. Every organisation has an image, even though it has not done anything to create one consciously (Da Camara, 2006/2007; Dolphin, 1999).

3.5.3   The relationship between identity, image and reputation

Corporate identity resides in the organisation, while *corporate image* resides in stakeholders. According to Van Rekom (1997), *corporate image* always starts with an organisation's *corporate identity*. The *identity* is perceived and interpreted by stakeholders, and an *image* is then formed. Therefore, *identity* is referred to as the internal view of the organisation and *image* as the external (stakeholder/customer) view. The *desired image* (of management) may be quite different from the *actual image* (formed by stakeholders). Davies and Chun (2002) concurred with this view and claimed that any gaps between internal and external perceptions are especially important in the service industry where the interaction between employees and customers is critical. These gaps are a source of concern because they could signal potential problems that could lead to a reputational crisis. Davies and Chun (2002) used the Corporate Personality Scale of Davies, Chun, Da Silva and Roper (2004) to measure both the *identity* and the *image* of organisations. They found that gaps do exist between the (internal) *identity* and the (external) *image* of an organisation, as implied by the literature. There is considerable evidence that external organisational *image* and internal organisational *identity* are reciprocally interlinked (see also Hooghiemstra, 2000). *Image* is best built on core *identity,* and *image* reflects back on *identity*. Because organisational members

are also members of external groups, there will be feedback from *image* to *identity* (Hatch & Schultz, 1997).

Pruzan (2001) made the point that companies should go beyond the traditional pragmatic external '*image* perspective' and complement it with a reflective internal '*identity* perspective' in order to arrive at a favourable *reputation*. The '*image* perspective' is often a managerial perspective with a focus on traditional notions of success. According to this perspective, *corporate image* has to be enhanced to build *corporate reputation*, with the sole purpose of protecting the company's license to operate and to contribute to income. The '*identity* perspective', however, takes a broader view on what success means and is concerned with the inherent character of the organisation. This perspective maintains that companies do not merely exist to make money, but that they have obligations toward society as a whole as well.

According to Dolphin (1999), *image* is often used synonymously with *reputation*. For some traditional authors *image* is based on the overall experience with the organisation (Argenti, 2002). Modern authors believe this definition to actually be the definition of *corporate reputation*. It becomes clear that the three corporate constructs – *identity, image* and *reputation* – share the same domain in the business idiom.

Nguyen and Leblanc (2001) emphasised the fact that there is a certain overlap between *corporate image* and *corporate reputation.* Their research showed that the likelihood of customer retention seems to be higher in instances of a favourable *image* and a favourable *reputation*. It is possible though that an organisation can have a favourable *reputation* (for example for providing excellent products), and yet has a low-impact and old-fashioned *image*. The reverse can also be true. A strong *image* may have been achieved by an expensive communication and advertising programme, which is not matched by a favourable *reputation* (Aula & Mantere, 2008; Gray & Balmer, 1998).

Wartick (2002: 376) found the fact that *identity*, *image* and *reputation* are often used as synonyms 'troubling'. (See a discussion on the relationship between *corporate reputation* and *corporate identity* in §3.4.4). Table 3.3 summarises the definitions of prominent authors of *identity, image* and *reputation*, showing the close relationship between the three concepts.

Table 3.3: Summary of definitions of identity, image and reputation by prominent authors

Author	Corporate (organisational) identity	Corporate (organisational) image	Corporate (organisational) reputation
Gray and Balmer, 1998: 695-697	The distinct characteristics of the organisation.	The mental picture of the company held by its audience – what comes to mind when one sees or hears the corporate name.	The estimation of the company by its constituents.
Bromley, 2000: 241	The way key members conceptualise their organisation.	The way an organisation presents itself to its public groups.	The way external stakeholder groups or other interested parties actually conceptualise that organisation.
Scott and Lane, 2000: 43-44	The set of beliefs shared between top managers and stakeholders about the central, enduring and distinctive characteristics of an organisation.	The way organisational members believe others see their organisation, i.e. *construed external image* (Dukerich, Dutton & Harquail, 1994), as the way that top management would like outsiders to see the organisation, i.e. *desired image* (Van Rekom, 1997).	The overall impression that companies make on external constituents (Bromley, 1993).
Davies, Chun, Da Silva & Roper, 2001: 113-114	The internal view that is the employees' view of the company.	The view of the company held by external stakeholders, especially that held by customers.	A collective term referring to all stakeholders' views of corporate reputation, including identity and image.
Whetten and Mackey, 2002: 394, 401	That which is most central, enduring and distinctive about an organisation.	What organisational agents want their external stakeholders to understand is most central, enduring and distinctive about the organisation.	A particular type of feedback, received by an organisation from its stakeholders, concerning the credibility of the organisation's identity claims.

Source: Compiled from various sources (see table).

Corporate image occupies a specific domain in the family of corporate concepts. It is not only related to *corporate reputation*, but also quite often confused with *reputation* in marketing conversations.

3.6   CORPORATE BRAND

Over the years, the concept *brand* has evolved from being product-oriented only to also apply to the corporate (umbrella/organisational) context.

3.6.1   The corporate brand and corporate branding

The notion of a *brand* has changed radically over the past number of years. *Brand* and *branding* have to a large extent taken on a corporate perspective (Balmer & Gray, 2003a; Balmer & Greyser, 2003a; Hatch & Schultz, 2003; Kumar, 1999).

A few decades ago, it was predicted that in the service economy, *company brands* would become the dominant discriminator in buying decisions. Consumers' choices would depend less on the benefits of products and services, and more on the company behind the brand and the people behind the company (Kitchen & Laurence, 2003; Kitchen & Schultz, 2001; Lewis, 2003a, 2003b; Proctor & Kitchen, 2002; Riley & De Chernatony, 2000).

De Chernatony (1999, 2002) believed that a *corporate brand* is experienced through products and services, as well as through corporate and staff behaviour. Staff and culture thus play a significant role in establishing, maintaining and manifesting *corporate brand* values.

3.6.2   The rise of the corporate brand

Einwiller and Will (2002: 102-103) named five developments that underlie the rising importance of *corporate brand*:

- The growing importance of capital markets;
- The 'war for talent';
- The need to create synergy between brands;
- The coordination and identity problems in multinational corporations; and
- The growing demand for transparency.

In the past, product brands dominated the market and companies differentiated their products and services with the objective to develop some 'unique selling proposition'. *Branding* was used to target mainly one group – clients/customers/consumers. Branding has evolved and it has become impossible for the modern organisation to separate its communication to different stakeholder groups because these groups largely overlap. Therefore, organisations increasingly use their corporate names to keep their portfolios of brands together in order to avoid confusion. The focus has moved to the organisation as the key entity in an effort to coordinate its communication, behaviour and symbolism (i.e. its *corporate identity*). The *corporate brand* represents the interface between the organisation and its internal and external stakeholders, and seems to be one of the few ways in which a company can distinguish itself from others and foster meaningful and beneficial relationships with stakeholders. It has become a key driver of an organisation's positioning in the minds of stakeholders (Balmer & Gray, 2003a; Burghausen & Fan, 2002; Davidson, 2003; Schultz *et al.,* 2000; Simões & Dibb, 2001; Troy & Master, 1998).

A significant number of recent studies confirmed the shift in emphasis from product and services branding and their functional attributes to corporate branding (Aaker, 1996; De Chernatony, 2002;

Hatch & Schultz, 2001; Klein, 2000; Proctor & Kitchen, 2002). Owing to the intangible nature of services, the *corporate brand* has become particularly important in the service industry. *Corporate brands* are dominating various sectors in the service industry around the globe. Significant for this study is that the portfolios of services of financial organisations are almost always offered under the *corporate brand* umbrella (see discussions about the shift from product brand to corporate brand in Caruana, 1997; Davies, 2003; Kitchen & Laurence, 2003; Kitchen & Schultz, 2001; McDonald *et al.*, 2001; Proctor & Kitchen, 2002). The development of the field of *corporate reputation* is a reflection of the fact that the interest in issues beyond product and service attributes and associations has expanded to the organisation behind the brand.

In the industrial era everything was about products and manufacturing. Today, in the knowledge era, organisations seem to be constantly searching for unique intangible assets that will give them an advantage. *Brands* are examples of intangibles that organisations do not want to share with anyone. This is why *brands* have become so important in many organisations (Olins, 2000).

Argenti and Druckenmiller (2004) pointed out that a *corporate reputation* is strengthened if an organisation keeps its *corporate brand* promises. Proctor and Kitchen (2002) concluded that a *corporate brand* is a major discriminator in consumer choice. In many cases, individual brands and *corporate brands* do not seem to be separate entities any longer (e.g. Levi Strauss). Clients demand to know more about the company behind the *brand*, which comes down to questions relating to corporate ethics, values and the personalities running a company. The loss of market share at Nike in the 1990s had little to do with marketing abilities, but had a lot to do with ethics. The study of Cretu and Brodie (2007) proved that *corporate brand* image has a specific influence on customers' perceptions of the quality of products and services. Research by Lewis (2003a) showed that consumers increasingly make purchasing decisions based on a company's perceived social responsibility activities.

3.6.3   Definition and formation of a corporate brand

The majority of authors concurred with the view that the *corporate brand* is the brand that represents the organisation. Thus, a company engages in *corporate branding* when it markets the *company* as a *brand* (Aaker, 2004; Knox, 2004).

For the purpose of this study, the ***corporate brand* is defined as the core values, basic assumptions and beliefs about how a company does its business. The *corporate brand* also conveys expectations and promises regarding what the organisation will deliver in terms of products, services and customer experience** (Balmer, 2001b; Balmer & Greyser, 2003a; Burghausen & Fan, 2002; Ettenson & Knowles, 2008).

Table 3.4 summarises the main elements in definitions of *corporate brand* and the process of corporate branding.

Table 3.4: Summary of elements in definitions of corporate brand

Element	Description	Author
It represents the organisation	The company is the brand; it spans the entire organisation; it defines the organisation.	Aaker (2004); Knox (2004).
It distinguishes	The corporate brand distinguishes the organisation from its competitors.	Aaker (2004); Bick *et al.* (2003).
It is who you are; what you want to be	The corporate brand answers certain questions about the organisation: Who are you? What do you want to be?	Balmer (2001b); Balmer and Greyser (2003a); Burghausen and Fan (2002).
It is the 'face of the organisation'	The brand is the 'face of the organisation'.	Balmer & Gray (2003a).
It is about values, assumptions and beliefs	The corporate brand encapsulates the core values, basic assumptions and beliefs about how a company does its business.	Balmer and Greyser (2003a); Burghausen and Fan (2002).
It is about expectations of customers; 'a customer-centric' concept	It conveys expectations of what the organisation will deliver in terms of products, services and customer experience. It is a 'customer-centric' concept that focuses on what services/products a company has promised its customers.	Balmer (2001b); Balmer and Greyser (2003a); Ettenson and Knowles (2008).
It is a reflection of customers' and stakeholders' needs; trust that it will deliver consistently	The corporate brand is a reflection of the organisation's ability to satisfy customer and other stakeholder needs; it is the trust that the organisation will deliver a consistent level of service/product.	Bick *et al.* (2008).
It is a covenant	The corporate brand represents an explicit covenant between an organisation and its key stakeholder groups, which clearly articulates the corporate branding proposition.	Balmer (2001b); Balmer and Greyser (2003a); Burghausen and Fan (2002).
It is a process to create an image	Corporate branding is a systematic process of creating and maintaining a favourable image and a consequent favourable reputation of the company	Einwiller and Will (2002).

Source: Own compilation from various sources (see table).

According to Balmer and Greyser (2003a) and Burghausen and Fan (2002), the organisation makes its identity known by expressing a clearly articulated *corporate branding* proposition by sending signals to stakeholders and by managing behaviour, communication and symbolism. This proposition underpins organisational efforts to differentiate and enhance the *brand* with its stakeholders. Because stakeholder groups tend to differ from each other, *corporate branding* strategies should be adopted for each group. *Corporate branding* efforts seem to be experienced by staff behaviour and by products/services, among other things (Fiedler & Kirchgeorg, 2007).

An organisation's *corporate brand* is shaped by its vision, culture and objectives, and the *corporate brand* in turn leads to certain staff behaviours and systems being put in place. Staff systems and behaviours result in positive stakeholder experiences and satisfaction levels (De Chernatony, 2002). De Chernatony's (2002) model is shown in Figure 3.1.
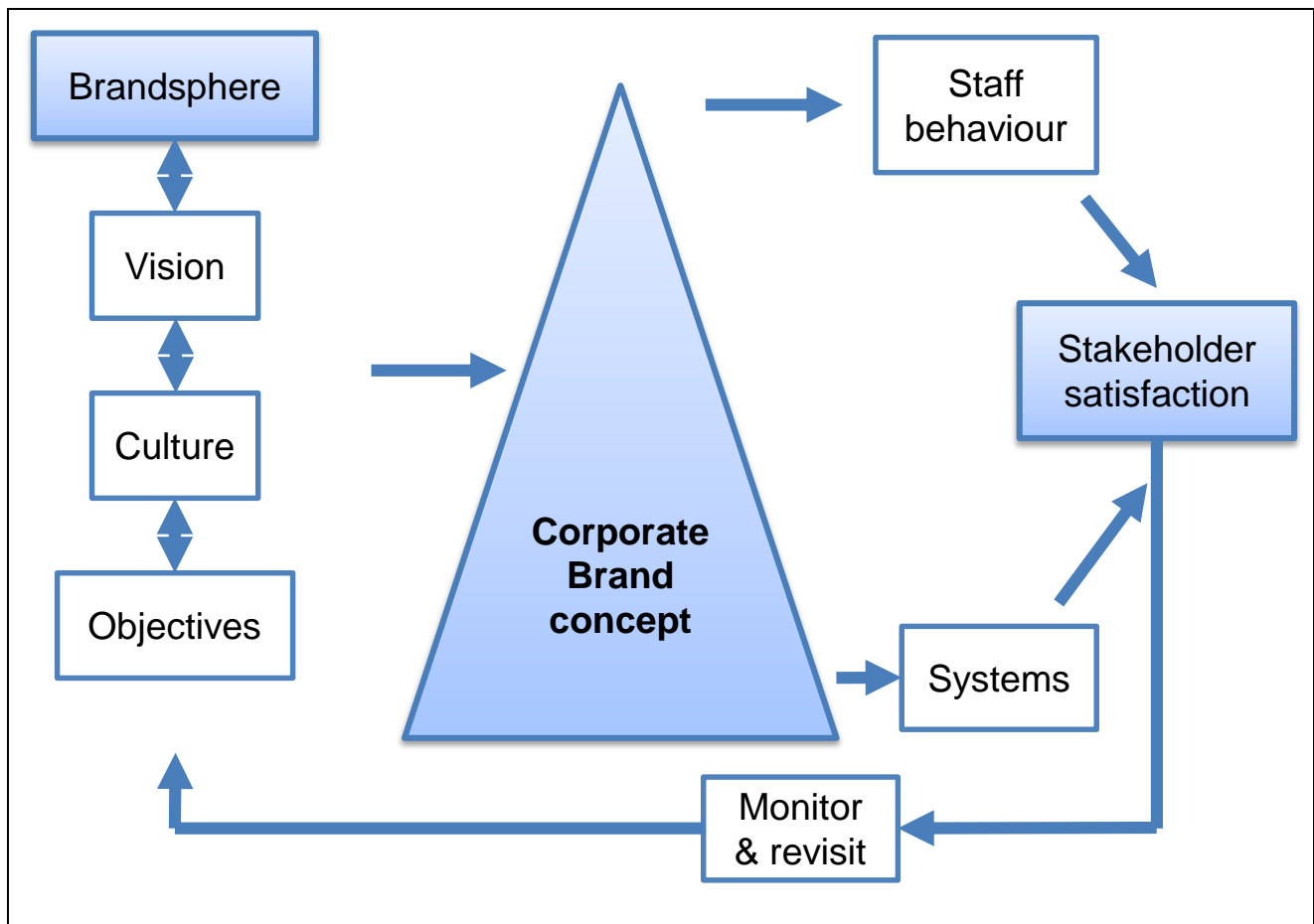
Figure 3.1: De Chernatony's model of a corporate brand

Source: De Chernatony, 2002: 120.

Corporate communication has become a critical function to build *corporate brand* equity. However, there are many aspects of stakeholder perceptions that an organisation cannot manage by means of communication. An organisation's reputation exists in the minds of stakeholders and is formed by their experiences of the organisation, their experiences with its products and services, word-of-mouth, its involvement in society and the environment, its corporate communication and its product communication (Argenti & Druckenmiller, 2004).

Sometimes, a *corporate brand* is positioned as aspirational (Argenti & Druckenmiller, 2004). An example of where the aspirational aspect was heavily emphasised when a new *corporate brand* was developed, was that of Absa in South Africa after the merging of four banks in the group in 1998 (Daffey & Abratt, 2002).

3.6.4   Characteristics of the corporate brand

Leading authors have identified characteristics that are intrinsic to *corporate brands*. These are summarised in Table 3.5.

Table 3.5: Characteristics intrinsic to corporate brands

Characteristic	Description
Cultural	Corporate brands tend to have strong cultural roots. An organisation's distinctiveness can be traced back to its subcultures.
Heritage	Corporate brands can benefit from going to their roots and identifying what made them special and successful in the first place.
Intricate	Corporate brands are multidisciplinary and multidimensional in that they affect many stakeholder groups.
Tangible	Corporate brands include aspects such as product-service quality, business scope, performance-related issues and profit margins.
Ethereal	Corporate brands include elements like 'lifestyle' and 'style of delivery'.
Commitment	Corporate brands require commitment from all levels of staff, and also from stakeholders and networks.
Assets and capabilities	By communicating its corporate brand, an organisation brings to the market the perception of having assets and capabilities that are able to create value for clients and deliver innovative services.
People	People in a company, in particular service companies, form the basis of corporate brand image. The attitude and culture that are intrinsic to the corporate brand will be standing behind the actions of the company's employees.
Values and priorities	Values and priorities make up the very essence of a company. Innovation, perceived quality and customer concern seem to be the three values and priorities that are most frequently adopted as drivers of corporate brands.
Local vs. global orientation	Something that may strongly affect customer relationships is whether the organisation assumes a local or global orientation. By assuming a local orientation, the corporate brand can benefit because customers usually take pride in successful local companies and because customers can identify with a company that adopts a local culture. By achieving global visibility, the corporate brand will benefit from the prestige and respect that all the brands acquire once they have made it globally.
Citizenship	People and organisations prefer to do business with people and organisations they admire. This citizenship dimension is branded through the corporate brand itself and it is gaining importance in the minds of customers, suppliers, investors and the community in general.
Corporate performance	Corporate performance, company size and the quality of management are often seen as guarantees of competence and staying power. Large companies that perform well and that are also visible are perceived by customers as being around to provide product and service back-up.

Source: Compiled from Aaker, 2004; Balmer, 2001b; Balmer and Gray, 2003a; Balmer and Greyser, 2003a; Burghausen and Fan, 2002.

Hatch and Schultz (2001) developed a framework to understand *corporate branding*. This framework is based on the integration between strategic vision, organisational culture and *corporate image*. Knox and Bickerton (2003) concurred with this framework and presented the 'six conventions' of *corporate branding,* namely:

- Brand context (setting the coordinates);
- Brand construction (developing the corporate brand positioning framework);
- Brand confirmation (articulating the corporate brand proposition);
- Brand consistency (developing consistent corporate communications);

- Brand continuity (driving the brand deeper into the organisation); and
- Brand conditioning (monitoring for relevance and distinctiveness).

3.6.5   The value-adding ability of corporate brands

According to Rogers (2008), in order to add value, *corporate brands* require a promise that is relevant and clear, leadership from the very top and buy-in from everyone. A *corporate brand* affords an opportunity to focus all products and convey consistent messages, and thus express a clear value proposition. *Corporate brands* seem to be both risk reducers and simplifiers of choice to customers. *Corporate brands* need to be aligned with business strategy, flexible to change and communicated consistently. Strong *corporate brands* are important assets to organisations, providing cohesion and credibility to new products and ventures in environments where consumers, investors and employees are overwhelmed with choices. Betts (1999) argued that *corporate branding* is valuable in two ways: it assists in shaping the organisation's values and culture, and it is also a strategic management tool to create value for all stakeholders of the organisation.

A *corporate brand* is a promise that the organisation will deliver a certain experience consistently. It is clearly value-driven (De Chernatony, 2002; Schultz & De Chernatony, 2002; Urde, 2003). The value of a *brand* is expressed as *brand equity*, which affects customers' decisions to buy a product or service. Some researchers see *brand equity* as a component of or synonymous with *reputation* (Da Camara, 2007a, 2007b).

3.6.6   The relationship between brand, corporate brand and corporate reputation

It is apparent from the literature that the relationship between *corporate reputation, corporate brand* and *product brand* is interwoven. All three are strategic intangible assets of organisations (Bickerton, 2000). A favourable reputation requires that the organisation establishes a well-considered and actionable *corporate brand* as a starting point (Berens, Van Riel & Van Bruggen, 2005).

According to Schreiber (2008), every organisation must have three crucial qualities to succeed in the long term, namely legitimacy, relevancy and differentiation. These three qualities can be realised by focusing on both *reputation* and *brand*. Thus, *brand* is 'customer-centric' and is about relevancy (corporate) and differentiation (product). *Reputation* is a 'company-centric' concept and centres on the organisation's legitimacy with a wide range of stakeholder groups, including customers.

Corporate brands create expectations in the minds of stakeholders, and meeting those expectations and fulfilling the *corporate brand* promise ensure a positive overall *reputation*. *Corporate brand*, which is owned and managed by an organisation, is one of several factors from which a *reputation* is formed (Ettenson & Knowles, 2008). *Corporate reputation*, on the other hand,

is owned is by stakeholder groups and is much more difficult – some people argue, impossible – to manage. Favourable *reputations* are established by fulfilling market signals. *Corporate reputations* can thus be managed – in a sense – by keeping all stated and implied 'promises' (Da Camara, 2007a; Herbig & Milewicz, 1995a; Polonsky & Jevons, 2006).

Polonsky and Jevons (2006) recommend a relationship-centred 'brand web' model to create and manage the *corporate brand*. It is the responsibility of the organisation to manage its *corporate brand* in a multidimensional way rather than in isolation. Ultimately, the multidimensional management of the *corporate brand* will lead to a favourable reputation with its stakeholder groups.

Leitch and Richardson (2003) referred to empirical research by Bickerton (2000) and Fombrun and Rindova (1998), who found that companies with a more favourable *reputation* appear to project their core mission and identity in a more systematic and consistent fashion than others with lower reputational rankings. Furthermore, these companies try to impart significantly more information, not only about their products, but also about a range of issues relating to their operations, identity and history. In this way, they are building their *corporate brands.*

A company can define and communicate its *identity* and *corporate brand*, but its *image* and *reputation* result from constituency impressions of that organisation's behaviour, and do not seem to be under the company's direct control. Some people argue that *reputation* is such an amorphous concept that an organisation cannot manage it at all. However, there is sufficient evidence in the literature that an organisation can in fact do so, and that active management of a *corporate brand* is an important part of that process (Fombrun & Rindova, 1998).

Although interlinked, there are important distinctions between *corporate brand* and *corporate reputation.* The most important distinction is that *reputation*, like beauty, is in the eye of the beholder. This is very different from the *brand*, which serves as a projection of what an organisation wants others to believe about it. *Reputation*, on the other hand, becomes a reflection of what the organisation stands for. Table 3.6 lists the distinctions between *corporate brand* and *corporate reputation*.

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Table 3.6: Distinctions between (corporate) brand and corporate reputation

Corporate brand	Corporate reputation
• Brands are **created by organisations.**	• Reputations are **created by stakeholders**.
• Brands are created with **consumers** (customers) in mind ('customer-**centric').**	• Reputations of companies are created by **stakeholders** ('company-centric').
• Brands are bundles of **benefits**, with a **promise for the consumer.**	• Reputations are created in **response to expectations**.
• Brands are **clusters of attributes (features)** associated wit**h a product or company; guarantees of consistency, quality and value for money; sets of values with which the purchaser can identity.**	• Reputations are the **reflection of the trust** that stakeholders have in organisations.
• Brands are about **relevancy and differentiation.**	• Reputations are **about legitimacy**.
• Brands are about **personality.**	• Reputations are about **character**.
• Brands **depend on** how well they have **fulfilled their promise to customers.**	• Reputations **depend on** the level of **goodwill of stakeholders.**
• Brands are **affected by** the ability to **deliver** a certain experience **consistently.**	• Reputations are **affected by** a **variety of factors** (e.g. **management strength, financial performance, ethical issues**).
• **Brand** is a **projection** of **what an organisation wants others to believe about it.**	• Reputation is in the **eye of the beholder**; a **reflection of what the company stands for**.

Source: Compilation by the researcher, with input from Ettenson & Knowles, 2008; Knox, 2004; *The road to external alignment is paved with good intentions*, 2012.

3.7   CONCLUSION

In this chapter, four concepts related to *corporate reputation – corporate personality*, *corporate identity*, *corporate image* and *corporate brand* – were discussed to provide clarification on the confusion that exists. These corporate-level concepts are all to a lesser or larger extent overlapping with *corporate reputation* and may have a minor or major influence on the latter. An organisation can define and communicate its *corporate identity* and *corporate brand*, but its *corporate image* and *corporate reputation* result from impressions of stakeholders about the organisation's behaviour and do not seem to be under the organisation's direct control (see Table 3.7). The literature agrees that an organisation can, however, manage its reputation by managing its corporate brand.

Table 3.7: The control and non-control of corporate-level phenomena by the organisation

What the organisational controls	What clients and other stakeholders control
Corporate identity	Corporate image
Corporate brand	Corporate reputation

Source: Compiled by the researcher.

In Chapter 4, *stakeholders, clients, organisations* and the *service industry* are discussed. The notion of *stakeholders* has always been prominent in research about *corporate reputation*. In addition, in this research project, the perspective of *clients* of *organisations* in the *service industry* was chosen as the focal point from which *corporate reputation* is studied.

CHAPTER 4

STAKEHOLDERS, CLIENTS, ORGANISATIONS AND THE SERVICE INDUSTRY

'There is no advertisement as powerful as a positive reputation traveling fast.'

- Brian Koslow

4.1 INTRODUCTION

In Chapter 3 concepts related to corporate reputation – *corporate personality, corporate identity, corporate image* and *corporate brand* – were discussed. The relationships between these phenomena and corporate reputation were clarified. These concepts overlap with *corporate reputation* and are often confused. An organisation is in control of its *corporate identity* and *corporate brand*, but its *corporate image* and *corporate reputation* result from the opinions that the organisation's stakeholders form about it. Hence, the conclusion was made that *corporate image* and *corporate reputation* are not under the organisation's direct control.

This chapter starts by investigating the concept of *stakeholders*. In the literature, the *stakeholder* concept has been closely linked to *corporate reputation*. Up until recently, corporate reputation has been mostly researched from a multiple stakeholder perspective. Later in the chapter, the specific stakeholder group on which this study focuses, namely *clients*, is defined and the choice of this term explained. In the last section of this chapter, the spotlight falls on the definition of *organisations* and that which makes the *service industry* unique.

4.2 STAKEHOLDERS

The stakeholder view of the organisation, according to Kim, Nofsinger and Mohr (2009), focuses on the optimisation of the sustainable economic wealth of all stakeholder groups and not the maximisation of shareholder wealth. The stakeholder approach to understanding and measuring reputation has become a key research direction in this field.

4.2.1 The stakeholder approach to corporate reputation

The multiple stakeholder perspective forms the platform for the current thinking in studies of corporate reputation. This differs from the marketing perspective in the sense that all groups that have a vested interest in the organisation are regarded as important, and not only customers or clients. All stakeholders, but especially key stakeholder groups, are important because their behaviour has a bearing on the success of the business (Davidson, 2003; Davies, 2003; Desmond, 2000). (See Table 4.1 and Figure 4.1. for classifications of stakeholders.)

According to some authors, corporate reputation cannot be measured directly. Instead, it is measured rather indirectly through stakeholder relationships. These authors link past business

behaviour and current stakeholder relationships to future organisational performance. Corporate reputations are thus formed as a result of a complex network of interactions and relationships between the organisation and its stakeholders, and among stakeholders themselves (Brønn, 2007; Dentchev & Heene, 2003; Grunig & Hung, 2002; Larkin, 2003; MacMillan *et al.*, 2000; MacMillan *et al.*, 2005; Yang & Grunig, 2005).

4.2.2   Stakeholder theory

R. Edward Freeman (1984) is often regarded as the 'father' of the *stakeholder concept*. Although the concept was developed in disciplines such as systems theory, corporate social responsibility, strategic planning and organisational theory, Freeman integrated the *stakeholder concept* and moved it to the forefront of the academic debate. He broadened the view of the organisation beyond profit maximisation to include the interests and claims of non-shareholding groups (Steyn & Puth, 2000; Mahon & Wartick, 2003).

Until the arrival of the *stakeholder concept*, many businesses treated shareholders as the only important group. According to the new 'stakeholder thinking', shareholders are but one key stakeholder group whose support should be sustained and whose interests should be looked after. The *stakeholder concept* means that organisations think in broader terms than merely profit-making for the benefit of one group (shareholders) at the cost of other stakeholders (Mahon & Wartick, 2003; Rindova & Fombrun, 1999; Roberts & Dowling, 2002; Steyn & Puth, 2000). *Stakeholder theory* also assumes that values form an integral part of doing business, and thus rejects the proposition that ethics and economics can be separated in a precise manner (Freeman, 1984; Freeman, Wicks & Parmar, 2004).

A hot debate was triggered at the time of the introduction of the *stakeholder concept* – the so-called stakeholder vs. stockholder debate, also referred to as the 'Friedman-Freeman debate' (Milton Friedman was an influential economist who claimed that the only purpose of a business is to make money). These days, the idea that stakeholders' opinions are important for the survival of the organisation is widely recognised (Agle *et al.*, 2008).

Two streams of the stakeholder theory are mentioned in the literature, namely the *instrumental* and the *normative* versions. The *instrumental* version claims that if the organisation pursues the interests of multiple stakeholders, the organisation will reach its goals such as profit, return on investment or shareholder value. The *normative* or *intrinsic* stakeholder model – also called the *stakeholder value perspective* – claims that the organisation ought to view the interests of stakeholders as having intrinsic worth and should pursue the interests of multiple stakeholders regardless of the expected benefits. According to this perspective, relationships with stakeholders are based on normative, moral commitments; it emphasises responsibility over profitability. The *instrumental* version is accepted by most scholars in the field, but the same cannot be said of the *normative* version. Some authors regard the pursuit of shareholder wealth and value as the only

goal of business (Berman, Wicks, Kotha & Jones, 1999; Freeman *et al.,* 2004; Phillips, Freeman & Wicks, 2003).

The relationship between organisations and their stakeholders has often been explained in terms of the resource-based view (RBV) of the organisation. According to this view, competitive advantage is associated with having relatively cheaper, better and faster access to resources. Stakeholders' decisions directly or indirectly influence the resource base of the organisation and determine its competitive position (Dentchev & Heene, 2004; Pfeffer & Salancik, 1978). From this perspective, an organisation is viewed as being dependent on various stakeholders for the critical resources that enable it to operate (Frooman, 1999; Jawahar & McLaughlin, 2001). Stakeholders' resource allocation decisions are instrumentally and/or normatively framed and include considerations such as concerns about a variety of issues. If any stakeholder group, over time, believes that it is not being treated fairly and its expectations are not met, stakeholders will take action. Members may withdraw from the stakeholder system, try to change the organisation's behaviour or punish it. Limiting the provision of resources will have a negative impact on the organisation (Kay, 1993; Neville *et al.*, 2005; Post, Lawrence & Weber, 2002).

4.2.3   Definition and identification of stakeholders

Groups are defined as *stakeholders* when they **have some form of engagement with the organisation; when they can be affected by an organisation's decisions, policies and operations or when they affect the decisions, policies and operations of the organisation** (Post *et al.*, 2002: 8). For the purpose of this study, this definition is accepted.

Freeman, Harrison and Wicks (2007) identified five primary and five secondary stakeholder groups. According to them, the five primary stakeholders are employees, suppliers, financiers, communities and clients, and the secondary stakeholders are competitors, consumer advocate groups, special interest groups, the media and government. Other researchers used terms like 'key stakeholders', 'critical stakeholders' and 'direct exchange stakeholders' to describe the primary groups (clients, employees, shareholders/investors, suppliers and government/community), and argued that they are closely and immediately affected by actions and decisions of the organisation and that they are critical for the continued existence of the organisation because they can benefit or harm the organisation. These groups are more salient than others are. Saliency is a function of urgency, legitimacy and power. 'Non-key' (or secondary) stakeholders (sometimes called 'influencers') are those who can affect or be affected by the actions of the organisation, but not to a critical degree. There are also stakeholders who are indirectly affected, or for whom the effects are delayed, slight or even non-existent (see discussions by Davidson, 2003; Davies, 2003; Freeman *et al.*, 2007; Ihlen, 2008; MacMillan *et al.,* 2004; Mahon & Wartick, 2003; Steyn & Puth, 2000; Wartick, 2002).

The stakeholders of different organisations will vary according to the type of industry and circumstances. Table 4.1 provides a list of stakeholder groups that organisations take into account, depending on their specific contexts.

Table 4.1: Potential stakeholder groups of organisations

Main group	Subgroups
Employees	Management Employees (non-management), e.g. specialists, administrative, secretarial Prospective employees Retirees Trade unions
Public and community	General public Communities (local, etc.) Community media Community leaders Community organisations
Media	News media Specialised media Financial media
Investors, creditors and financial experts	Owners Shareholders Potential investors Portfolio managers Financial analysts Banks Credit providers
Government and regulators	National Provincial Local Regulatory agencies Government officials
Consumer publics	Clients Consumers Consumer publications
Interest and activist groups	Activist consumer groups Public interest groups Social groups Political groups Environmental groups/activists Religious interest groups

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Main group	Subgroups
Other	Suppliers
	Distributors
	Franchisees
	Licensees
	Competitors
	Business partners
	Opinion leaders
	Professional associations
	Industry trade groups
	Non-governmental organisations (NGOs)
	The natural environment

Source: Compiled from Alsop, 2004: 39; Steyn and Puth, 2000: 195-196.

Some stakeholders, such as the media and government, may not have a direct experience or interaction with the organisation, but when issues arise, other stakeholder groups will rely on them for information. Many stakeholder groupings – like members of a community – are passive. When a change occurs at the organisation (e.g. when the government adopts a new strategy that will have an impact on their lives, such as to build a road through a nature reserve), the group will become more aware of the behaviour of the organisation and may take negative action. At this stage, an organisation may choose to actively manage the issue with the aim of minimising the conflict with the relevant group, or it may choose to ignore the issue (Ihlen, 2008; Steyn & Puth, 2000).

Mendelow (1991) introduced a model, called a 'stakeholder map', by means of which stakeholder groups can be identified and classified in relation to the power that they hold and the extent to which they are likely to show interest in the strategies of the organisation.

Grunig and Hunt (1984) introduced another model to identify stakeholders according to four linkages to the organisation: *functional linkages* (divided into inputs and outputs)*, normative linkages, diffused linkages* and *enabling linkages*. *Functional groups* (including two input groups, namely employees and suppliers, and output groups like consumers, wholesalers, distributors, retailers and others who buy and use products and services) are the most visible stakeholders and they affect the day-to-day activities of the organisation. *Normative groups* include competitors, associations and professional societies. *Enabling groups* (including stockholders, boards of directors and regulators) have some degree of control or authority over the organisation. *Diffused groups* (including the media, special interest groups and others having infrequent interaction with the organisation) take an interest in the organisation when they are concerned about protecting the rights of others. Issues that may draw the attention of these groups include the environment and equal employment opportunities. Dowling (1994: 25-27) changed this model to make provision for *customers/clients* as a separate stakeholder class. He combined the *normative* and *enabling* groups to form *normative* stakeholders (see Figure 4.1).
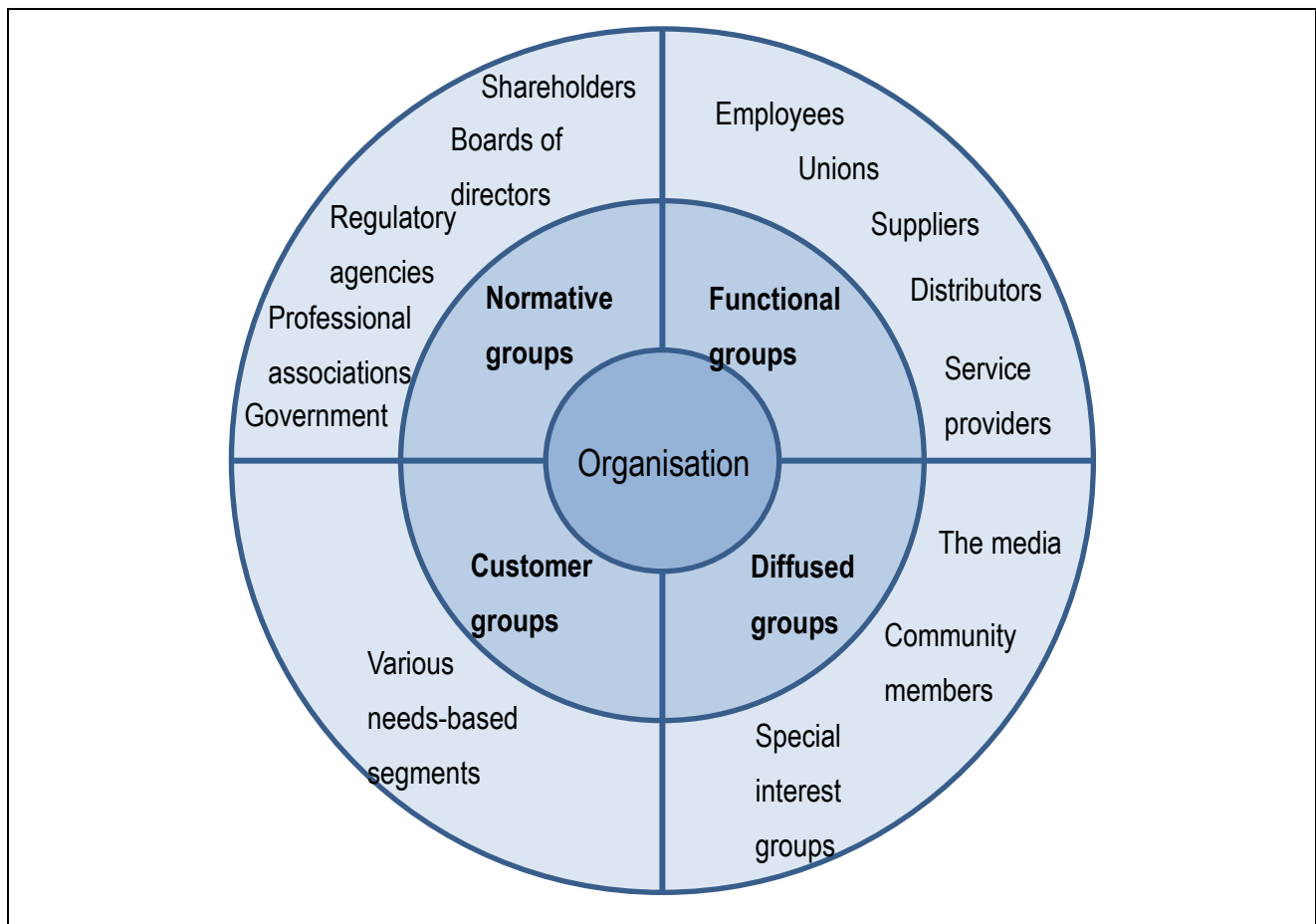
Figure 4.1: Dowling's classification of stakeholders into four groups

Source: Dowling, 1994: 25.

Different terms have been used for *stakeholders* by different academic interest groups. The term *audiences* is commonly used by marketers and the term *publics* by corporate communication (public relations) practitioners. Steyn and Puth (2000) pointed out that the management of *publics* has been the core business of corporate communication practitioners since the 1950s. In the literature covering the general field of management, *stakeholders* is more often used than *constituencies* and *resource holders,* which are terms used as synonyms for *stakeholders* by authors such as Rindova and Fombrun (1999).

Researchers mention that the boundaries between stakeholders have become blurred in recent years and therefore corporate relationships with these groups have become very complex. The roles stakeholders play are also not static. They take on different roles depending on the time and circumstances. The media is an example of a stakeholder group that is passive most of the time, but becomes highly active in times of a corporate crisis (Hutt, 2010).

4.2.4   The role of stakeholder relationships in organisations

Recent studies on corporate strategy emphasise that successful businesses derive their strength from a distinctive structure of relationships with employees, clients and suppliers. Some authors

argued that sustainable relationships are essential and that the *stakeholder approach* is a commercial necessity (Hamilton & Clarke, 1996; Kay, 1993).

In recent times, organisations have realised that they have more stakeholders groups than they thought. According to The Chartered Institute of Management Accountants (*Corporate reputation: perspectives of measuring and managing a principal risk*, 2007), some organisations have as many as 30 to 40 stakeholder groups; most have 12 to 15. The majority of authors in this field stressed that it is of utmost importance that organisations know who their stakeholders are and what impact they have on their organisations. Organisations have also come to the realisation that they have no control over stakeholders' perceptions, but that they can influence them by managing organisational behaviour and thus the experience that stakeholders have with the organisation. Local communities and activist organisations are two groups which have been neglected by some organisations in the past (Alsop, 2004; *Corporate reputation: perspectives of measuring and managing a principal risk*, 2007). Stakeholder decisions directly or indirectly influence the resource base of the company and therefore also the competitive position (Dentchev & Heene, 2004). Organisations have started to pay more attention to their stakeholder groups because of the growing importance of their influence with regard to reputation (Alsop, 2004).

It is important in the context of this study to note that Lloyd (2011) developed a scale to identify the different drivers/attributes of corporate reputation for different stakeholder groups because, according to him, little effort has been made to segment the stakeholders of organisations in order to investigate how each of the separate groups evaluates the corporate reputation of organisations.

4.3   CLIENTS

This study investigates the attributes of corporate reputation of service organisations from the perspective of one stakeholder group, namely clients. In this section, the term *customer* and *client* will be defined briefly to explain why the term *client* is preferred.

4.3.1   Definition of a customer/client

A *customer* or *client* (also known as a *buyer* or *purchaser*) refers to a current or potential buyer, renter or user of the products and services of an individual or organisation. The general and well-known distinction between a *customer* and a *client* is that a *customer* purchases products whereas a *client* purchases services. According to Partridge (2002: 2-6), a *customer* is a person or an organisation that purchases (transacts a transaction for) a product, commodity or service (an asset) (see also Deber, Kraetschmer & Urowitz, 2005). Partridge (2002) argued that a *customer* should be viewed as being in a relationship (with the supplier) and being dependent in some way upon purchase transactions.

The word *client* is generally used for a person who or organisation that buys or receives (professional) services (Cambridge Dictionaries online; Oxford Dictionaries Online). A *client* is

likely to follow the advice and professional knowledge of someone he or she does business with. *Client* originates from the Latin word meaning 'dependent'; 'one who is under the protection of another' (Deber *et al.*, 2005).

A third concept – that of a *consumer* – also needs to be clarified here. Kelvin (2001) defined a *consumer* as an individual who consumes goods or services. A *consumer* thus buys or acquires products (goods) or services for direct use or ownership and not for resale or use in production and manufacturing; the *consumer* is the end-user of the final product or service. *Consumer* originates from the Latin word 'consumere' (to take up completely) (Deber *et al.*, 2005).

For the purpose of this study, the term *client* is preferred, because this research focuses on the service industry. For the purpose of this study **a *client* is defined as an individual or an organisation that buys a service.**

In the next section, the *organisation* will be defined and discussed.

4.4   ORGANISATIONS

This study focuses on the corporate reputation of all types of large service organisations. In this section, a definition of *organisations* is provided and the most typical types of organisations in a business context are discussed briefly.

4.4.1   Definition of organisations

Robbins and DeCenzo (2005: 4) defined an organisation as a systematic arrangement of people brought together in a system for a specific purpose. For the purpose of this study, **an *organisation* is defined as a systematic arrangement of people, with a distinct purpose and a systematic structure.**

4.4.2   Characteristics of organisations

According to Hersey and Blanchard (1988: 9), *organisations* are entities comprising interrelated subsystems, namely a social/human subsystem, an administrative/structural subsystem, an informational/decision-making subsystem and an economic/technological subsystem.

Robbins and DeCenzo (2005: 4-5) argued that all *organisations* have three common characteristics:

i)   All organisations have a distinct purpose and are made up of people who are grouped together. The purpose is expressed in terms of a goal or set of goals.

ii)   All organisations have people who establish the goal and perform a variety of activities to achieve the goal.

iii)   All organisations develop a systematic structure that defines and limits the behaviours of its members.

Organisations comprise various types of entities, for example companies, universities, churches, state-owned enterprises, sports unions and clubs, not-for-profit organisations and micro enterprises.

In this study, the focus falls on large organisations with a business/economic purpose, namely companies and state-owned enterprises.

4.5   THE SERVICE INDUSTRY

As this study focuses on the reputation of organisations in the *service industry*, a definition and typical attributes of services, as opposed to goods, are provided in this section. The history and development of the *service industry* are briefly discussed. Services can be categorised by using a continuum, where services at the one extreme are 'pure' services and those at the other end are a 'blend' of services and goods.

4.5.1   Definition of services

The *service industry* in the economy has been described in different ways over the years. In recent times, *services* are defined to include economic activities of which the outputs are non-physical products that are generally consumed at the time they are produced, that provide added value in forms such as convenience, amusement, timeliness, comfort, education or health, and that are essentially intangible (Quinn, Baruch & Paquette, 1987; Zeithaml, Bitner & Gremler, 2009).

A *service* is performed by one entity for another. *Services* are provided for clients by other people and encompass the rental of goods, servicing goods owned by clients, and personal services such as banking, air travel, accounting, vehicle rentals and house painting (Evans & Berman, 1995; Perreault & McCarthy, 2002). Zeithaml *et al.* (2009: 4) agreed with this and defined services as deeds, processes and performances provided or co-produced by one entity or person for another entity or person. According to Hill (1977: 336), a *service* is defined as a change in the condition of a person, or of a good belonging to an economic unit, which results from the activity of another economic unit, with the prior agreement of the former person or economic unit.

For the purpose of this study, ***services* are defined as intangible, non-physical deeds, processes and performances provided or co-produced by one entity or person for another entity or person.**

Services or the *service industry* should not be confused with *client (customer) service*. All companies, including manufacturing companies, provide *client (customer) service* and they typically do not charge for it. It is an essential element to building good client/customer relationships. *Services*, on the other hand, are provided for sale by a company (Zeithaml *et al.,* 2009).

4.5.2   The rise of the service industry

Between 1950 and 1970, it became clear that the decline of the industrial economy in the USA, Europe and further afield was no longer in question. The *service industry* was driving a new macroeconomic paradigm and the number of people employed in occupations in services surpassed those in manufacturing (Sweet, 2001). The rise in global services and the *service industry* in general in the last number of years can be described as impressive (McManus, 2009). In the industrialised countries of the world services play a dominant role (Murray & Schlacter, 1990). In both the EU and the USA, services represent around three quarters of total value added and their share is increasing, while the role of the manufacturing industry in the economy is shrinking and now accounts for less than one-fifth of total value added. Knowledge-intensive high-tech services specifically play an increasingly important role in all developed economies (Duchêne, Lykogianni & Verbeek, 2010; McDonald *et al.*, 2001). Among the reasons for the growth of services globally are the rising living standards of populations, complex goods that require specialised installation and repair, the lack of clients' technical skills, and the greater need for health care, childcare and educational services (Evans & Berman, 1995). According to Greenwood, Li, Prakash and Deephouse (2005), the importance of service companies such as law, consulting and accounting companies, which constitute the 'intellect industry', is growing. Reputation is of specific importance in this subsector because of the difficulty to transfer reputation from one service to another.

4.5.3   Attributes of services

Certain attributes distinguish services from goods (products), according to Evans and Berman (1995), Parasuraman, Zeithaml and Berry (1985), and Perreault and McCarthy (2002):

i)   **Intangibility**: Services are not physical; they cannot be touched, handled, smelled, displayed, transported, stored, packed or inspected before buying. A service cannot be sold or owned by somebody. The intangibility of services makes them difficult to copy (Boyd, Walker, Mullins & Larréché, 2002; McManus, 2009). Although intangibility is a key attribute of services, very few services are totally intangible. The 'tangibility spectrum' of Zeithaml *et al.* (2009) is useful to explain *services*, which is dealt with in this study and which lies on the right-hand side of the spectrum shown in Figure 4.2.

ii) **Perishability**: Services cannot be saved, stored for future sale, resold or returned. When a service is performed, the client cannot keep it. A service must be experienced, used or consumed there and then. Service-relevant resources, processes and systems are assigned for delivery during a definite period of time (Zeithaml *et al.*, 2009).

iii) **Inseparability** (from the service provider): The service provider and his/her services are inseparable, in other words the production and consumption of the service cannot be separated. Client contact is an integral part of the experience in services (Murray & Schlacter, 1990).

iv) **Simultaneity**: Whereas goods are produced first, most services are sold first and then produced and consumed at the same time. Clients are present while the services are being produced and may even take part in the production process as co-producers or co-creators (Zeithaml *et al.*, 2009).

v) **Heterogeneity/Non-standardisation**: Each service is unique and a service performance can vary from one purchase to the next, and from hour to hour, even if the service is performed by the same person. It is one-time generated, rendered and consumed, and it can never be exactly repeated as the time, location, circumstances, conditions and assigned resources are different for the next delivery (Murray & Schlacter, 1990; Zeithaml *et al.*, 2009).
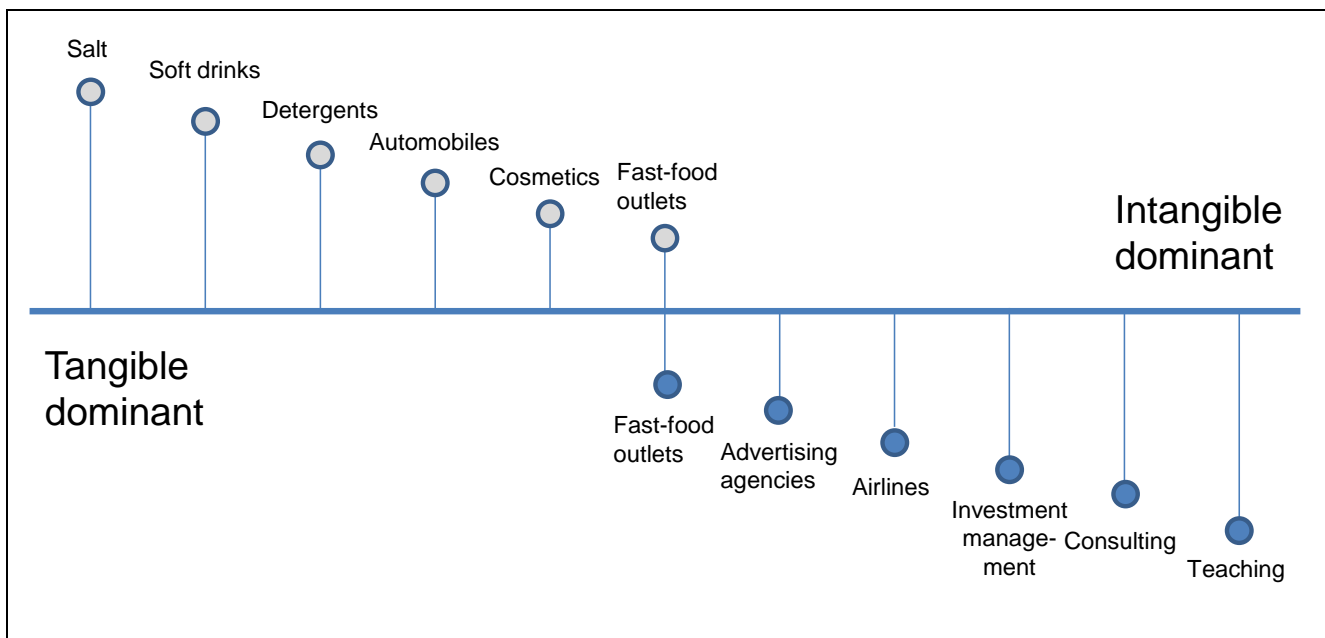
Figure 4.2: The tangibility spectrum of services

Source: Zeithaml *et al.,* 2009: 6.

Of all the types of services, personal services are the most perishable and the most inseparable from the service provider, and have more variations in quality than any other kind of service (Evans & Berman, 1995).

For services where no goods are involved, the performance of the service provider can be judged only after the service is completed. Consistency is hard to maintain. Services are often provided by people of greatly varying skills. The higher the level of skills required by a specific service, the easier variation could occur, for example in the case of a lecturer at a business school. The human factor is often the key success factor in services (Evans & Berman, 1995).

The perishability of services makes it harder to balance supply and demand. A service provider must have enough equipment and employees to deal with peak demand times, but when clients do buy enough, facilities are left idle. Services cannot be produced in large economical quantities and

then stored or transported to clients. They have to be produced at the same time as they are consumed, in the presence of the client (Perreault & McCarthy, 2002; Hill: 1977).

Services may consist of changes in the physical condition of goods (such as transportation, cleaning, repairs and decoration) or changes in the physical, intellectual, emotional or mental condition of people (transportation, surgery, communication, education or entertainment) (Hill, 1977).

Technology-enabled or internet-enabled service companies such as telecommunications, health, tourism, entertainment, banking and retailing organisations can compete globally on a large scale (McManus, 2009). The ability to innovate fast and thus present barriers to imitation is a competitive advantage of service organisations (McDonald *et al.,* 2001).

Research shows that clients perceive services to be more risky to evaluate and more variable in nature (Murray & Schlacter, 1990). This is an important consideration for this study.

4.5.4   Categorisation of services

One way to categorise goods and services is to place them on a continuum from pure goods to pure services. Many products or services fall between these two extremes (see Figure 4.2). A restaurant, for example, provides a physical good (food), but also services in the form of ambiance and the way in which the food is prepared. With pure services, the seller offers the client only non-goods services without the buyer obtaining title over any physical goods. Examples of pure services are design, personal training, interior decorating and business education. If the degree of contact is high, interpersonal skills become very important in addition to the technical skills of the service provider (Evans & Berman, 1955).

In a narrower and different sense, *service* refers to quality of client service, in other words the measured and appropriate assistance and support provided to a client. This study is not about *service* in this sense, meaning the quality of client service, but about the specific type of intangible products, we call services.

4.6   CONCLUSION

In this chapter, the concept of *stakeholders* was investigated. In previous research, the *stakeholder* concept has been closely linked to *corporate reputation*. Up until recently, *corporate reputation* has mostly been researched from a multiple-stakeholder perspective. Later in the chapter, the specific stakeholder group that is the focus of this study, namely *clients*, was defined. In the last sections of this chapter, the spotlight fell on the definition and description of a modern *organisation* as well as the *service industry,* which is growing worldwide and which forms the context for this study.

In Chapter 5, both traditional and modern approaches to the development of measurement instruments will be discussed. The steps and procedures of traditional scale development, as practised by Churchill (1979) and others, will be deliberated. Modern scale developers emphasise

the importance of construct validity, which implies that the items making up a scale to measure a latent construct are alternative indicators of the same construct. With the introduction of structural equation modelling (SEM), major advantages became available to scale developers, including confirmatory factor analysis (CFA) and software programs such as LISREL. Testing for construct validity, reliability, model fit and invariance has become important when developing new instruments. Therefore, the protocols and techniques involved in the development of instruments – especially those used in this study to develop a new instrument to measure client-based corporate reputation – are explored in some detail.

CHAPTER 5

SCALE DEVELOPMENT

'It takes 20 years to build a reputation and five minutes to ruin it.
If you think about that, you'll do things differently.'
- Warren Buffett

5.1   INTRODUCTION

In Chapter 4, concepts concerning the research domain of this study were discussed, namely *stakeholders, clients, organisations* and the *service industry*. The concept of *stakeholders* was discussed in depth because of the close link between *stakeholders* and *corporate reputation*. The concepts of *clients, organisations* and *services* were defined and explained.

In this chapter, an overview of measurement instruments is provided and reflective and formative instruments are discussed. An overview of traditional and modern scale development is provided. The predominant protocols used by researchers in the past, which formed the basis of scale development over the years, are discussed. The work of contemporary researchers, who have had a major influence on scale development and who have become popular in recent years, is reviewed. In the latter part of this chapter, emphasis is placed on the protocols that are regarded as essential in modern scale development, such as *construct validity* (including *discriminant validity, convergent validity* and *nomological validity*), reliability, model fit and invariance. In this study, contemporary approaches such as *confirmatory factor analysis* and *structural equation modelling* are utilised. The specific protocols and techniques used in this study to develop a new scale to measure client-based corporate reputation in services are discussed in detail.

5.2   MEASUREMENT INSTRUMENTS

Measurement entails conceptualisation (taking a construct or concept and refining it by giving it a conceptual or theoretical definition) and operationalisation (taking a conceptual definition and making it more precise by linking it to one or more specific, concrete indicators or operational definitions) as well as determining the levels of measurement and the methods of measuring reliability and validity (Dillon, Madden & Firtle, 1994: 286).

According to Straus and Wauchope (1992: 1236), in a business research context, the term measurement instrument is synonymous with scale, index and other terms. An instrument or scale is a measure, which combines the values of several items (also called indicator variables) into a composite measure, used to predict or gauge some underlying continuum, which can only be partially measured by any single item (Nie *et al.*, 1978). According to Babbie (2010: 161-184), a scale is composed of several items of a variable (dimension, latent construct or latent variable) that have a logical or 'intensity' structure (different degrees or levels) among them (e.g. Likert scale).

According to Hinkin (1995) and Straus and Wauchope (1992), the validity and reliability of instruments have been a problem in the social sciences for many years, and have often resulted in difficulties with the interpretation of results and with inconclusive results. Poor validity and reliability lead to inaccurate instruments and thus poor decision-making.

5.2.1   Reflective and formative measurement instruments

In the light of an emerging enthusiasm for formative measurement, Edwards (2011) thoroughly analysed the nature of reflective and formative measurement models and concluded that reflective measurement is, on the basis of its ability to demonstrate dimensionality, internal consistency and measurement error, construct validity and causality, still the preferred alternative. A reflective measurement model was preferred for this study due to its ability to demonstrate construct validity in a rigorous fashion, which is considered the most important fundamental requirement in new scale development.

Reflective measurement is rooted in classic test theory, also called the 'domain sampling model' (Nunnally & Bernstein, 1994) or the 'common factor model' (Harman, 1976; Kim & Mueller, 1978). In reflective measures, constructs are viewed as underlying factors (latent variables) that give rise to something that is observed and therefore the items (indicators, observed variables or measured variables) are reflective (Diamantopoulos & Winklhofer, 2001). The construct underlies the measures and thus changes in the construct, which are real entities, are expected to cause changes in the measures (Edwards, 2011; Podsakoff, Shen & Podsakoff, 2006; Smith & Hitt, 2005). The construct thus determines the measures (Bollen & Lennox, 1991; MacKenzie, Podsakoff & Jarvis, 2005) or explains the variances or covariances of the measures (Podsakoff *et al.*, 2006). With reflective measurement, a set of items 'is chosen randomly from the universe of items relating to the construct' (DeVellis, 1991: 55). Because they describe the same dimension, reflective measures are conceptually interchangeable, and removing any one would not alter the meaning of the construct (Bollen & Lennox, 1991; MacKenzie *et al.*, 2005; Edwards, 2011). With reflective measures, one assumes that variations in the measured items of a latent construct are made up of true score plus error. The calibration of reliability (say coefficient alpha) and the various types of validity (content, face, criterion-related, concurrent, predictive, construct, convergent, and discriminant) test the efficacy of the measure (Dowling & Gardberg, 2012). Should the study intend to account for observed variances, reflective indicators are regarded to be more suitable (Fornell & Bookstein, 1982a, 1982b).

Formative measurement is an alternative approach, which is based on the use of formative (causal) indicators. Formative measurement is consistent with a constructivist position (Fosnot, 1996; Von Glasersfeld, 1995), where constructs are elements in the theoretical discourse and do not have any real existence independent of their measurement (Borsboom, Mellenbergh & Van Heerden, 2003, 2004; Sarstedt *et al.*, 2013). With formative measurement, a census of indicators is required, which must cover the entire scope of the latent variable as described under the content

specification (Bollen & Lennox, 1991). A number of indicators are thus combined to form the latent variable, without assumptions about the correlations among the indicators. The indicators form the latent construct and the causality flows from each indicator to the construct. In formative measurement, the set of indicators chosen are aggregated into an index measure (Diamantopoulos & Winklhofer, 2001; Dowling & Gardberg, 2012), which is a composite rather than a latent variable (Edwards, 2011). When any formative measure is removed, it means that a part of the construct is removed (Diamantopoulos & Siguaw, 2006). As formative measures are exogenous variables, their covariances are not explained by the model and do not follow any type of pattern. Therefore, formative measures do not have the ability to demonstrate internal consistency (Edwards, 2011). Formative measurement models also do not incorporate measurement error (Edwards, 2011; Edwards & Bagozzi, 2000) and thus fail to capitalise on the key advantages of SEM (Bollen, 1989). Two examples of a formative approach to the measurement of corporate reputation are the studies of Helm (2005) and Schwaiger (2004) (see §6.4.1.4 and §6.4.1.5 respectively). According to Sarstedt *et al.* (2013), the research of Schwaiger (2004) is particularly valuable because it allows for an item-based prioritisation of the levers of corporate reputation.

A reflective measurement approached was preferred for this study. The conceptualisations of the constructs, items and causality that underlie reflective measurement are consistent with critical realist ontology of constructs and the notion that measures are scores that serve as potentially flawed indicators of real phenomena. In contrast, formative measurement's constructs overlap with their measures, and measures are equated with theoretical dimensions that have causal potency, disregarding any error that almost certainly exist in the measures (Edwards, 2011). Other prominent researchers such as Bagozzi (2007), Borsboom (2005) and Howell, Breivik and Wilcox (2007a, 2007b) argued that reflective measurement has decided advantages over formative measurement in terms of how constructs, measures and causality are conceptualised.

5.3   TRADITIONAL SCALE DEVELOPMENT

In the late 1970s, Gilbert Churchill (1979) proposed a well-accepted procedure for the development of valid and reliable multi-item instruments. This procedure consists of six steps: domain specification, generation of questionnaire items, empirical surveying, an iterative process of scale purification based on reliability assessment and validity checks and, finally, the development of norms. Jacoby (1978) warned that researchers' lack of attention to the appropriate procedures when developing measures is one of the reasons for invalid results in research. He pointed out that construct validity is the most necessary type of validity.

Classical thinking about scale development – and therefore also construct validity – changed to a significant extent since the publication of the seminal article of Cronbach and Meehl (1955) about construct validity in psychological tests. The paramount paradigm at the time was one where a

theory would be proven or falsified (the so-called 'justificationism' paradigm). Unobservable constructs could only be validated convincingly if one could demonstrate that an instrument measuring a new construct was related to measures of other constructs in a theoretically predictable way. There was no way to assess the construct validity of an unobservable construct except to examine whether scores obtained on the instrument conform to a theory which also applies to the new target construct (Smith, 2005).

For many years, researchers built on the early work of Churchill (1979) and Peter (1979, 1981) when developing new measurement instruments.

5.3.1   Churchill's framework for the development of measures for constructs

In his seminal article, Churchill (1979) recommended a framework and procedures for developing multi-item measures with 'desirable psychometric properties', which have been widely used by researchers over the years.

The first step in Churchill's (1979) procedure is the specification of the construct domain by developing a conceptual definition, stating clearly what is included and what is excluded (Tull & Hawkins, 1993). Items are generated which capture the domain using different techniques such as a review of the literature (to investigate how variables were previously defined), experience surveys (a sample of 'judges' who could offer insights and discussions), critical incidents, focus groups and insight-stimulating examples. Each item is expressed by a statement, which describes an aspect of a dimension of the construct. Churchill (1979) regarded a set of 80 to 100 items acceptable at this stage. Judges then rate the items on how favourable each item is with respect to the construct. Items with a low association are eliminated (Trochim, 2006; Tull & Hawkins, 1993).

As a next step in Churchill's (1979) procedure, a more substantial and representative sample of the ultimate universe is obtained in order to collect data to purify the scale. The type of data collected depends on the type of scale used. Once data has been collected, the instrument is purified, based on statistical analyses. Items with a low reliability and poor discriminant validity are thus removed. A low coefficient alpha indicates that the sample of items performs poorly in capturing the construct, while a large alpha indicates that the k-item test correlates well with true scores. Factor analysis may also be performed on the initial data in order to identify the number of dimensions underlying the construct. The most desirable outcome happens when the measure produces a satisfactory coefficient alpha(s) and the dimensions agree with those conceptualised. When the coefficient alpha is too low, Churchill (1979) deemed it appropriate to go back to Step 1 and Step 2 and to repeat the process. If a desirable outcome has been achieved, the preliminary questionnaire measure is administered to a new representative sample of the desired universe.

Once the final data has been collected, the reliability of the scale can be assessed (Tull & Hawkins, 1993). Reliability implies that a scale can consistently measure a construct. The Cronbach coefficient alpha is widely used as the basic statistic for assessing the reliability of a measure

based on internal consistency. Coefficient alpha does not estimate, though, errors caused by factors external to the instrument such as differences in testing situations and respondents over time. While the preceding steps should produce an internally consistent set of items, reliability is a necessary but not sufficient condition for construct validity. To assess construct validity, the extent to which the measure correlates with other measures designed to measure the same thing and the extent to which the measure behaves as expected also need to be determined. As a last step, norms are developed where a respondent's score is compared with the scores achieved by other people (Churchill, 1979). Churchill's framework and procedures are shown in Figure 5.1 below.
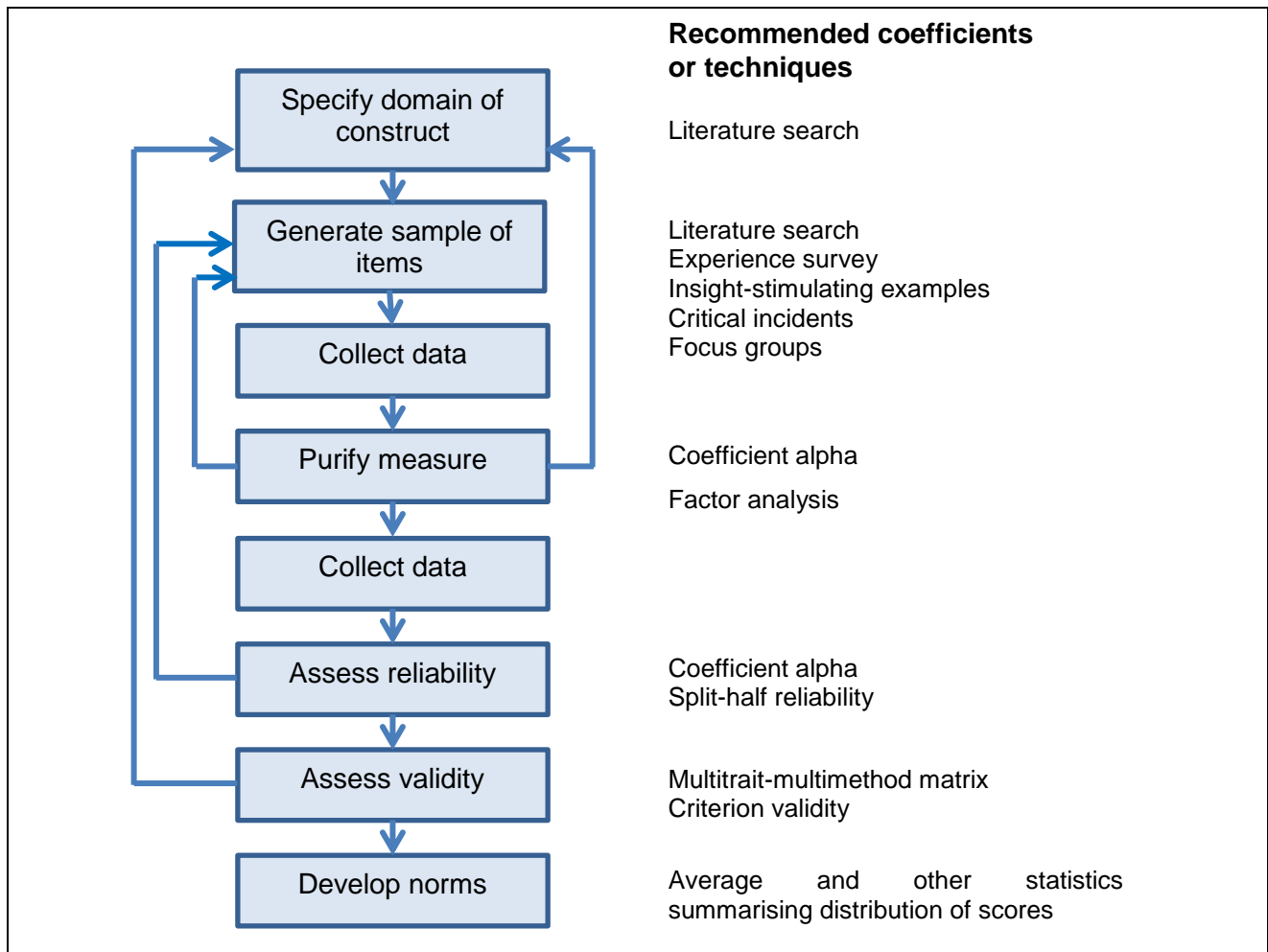
Figure 5.1: Churchill's framework for developing measures

Source: Churchill, 1979: 66.

5.4   CONTEMPORARY SCALE DEVELOPMENT

The thinking regarding the measurement of unobservable constructs and the means of validation of these constructs have changed to one where theory is never proven or falsified, but is revised as part of an on-going process. The paradigm has thus shifted from 'justificationism' to 'nonjustificationism', which pertains to construct validity in the sense that researchers acknowledge that the testing of any theory, including the theories of measurement, influences the empirical test.

Theory evaluation is on-going and open to revision and critical re-evaluation (Smith, 2005: 396-398).

Since the early days of Churchill (1979), Peter (1979, 1981) and others, scale development and scale validation have received much attention in business literature. These include contributions by Gerbing and Anderson (1988), Malhotra, Peterson and Kleiser (1999), Rossiter (2002), Diamantopoulos (2010), Diamantopoulos and Siguaw (2006), and Diamantopoulos and Winklhofer (2001).

5.4.1   The development of modern multiple-item (multi-indicator) measures

Because of the inherent limitations of single-item measures, multiple-item (multi-indicator) measures are normally used and combined as a scale. These measures are intended to be alternative indicators of the same underlying construct (Gerbing & Anderson, 1988). In social sciences, multiple-indicator measures are considered to be more valid than single-indicator measures because most phenomena of interest in this area have multiple facets that can only be represented by multiple indicators. Another reason why they are more valid is the inevitable risk of errors in selecting indicators. Furthermore, multiple indicators are desirable because the internal consistency reliability of an instrument as measured by the alpha coefficient (Cronbach, 1951) is a function of the number of indicators and the correlation among them. The more indicators there are and the higher the correlations, the higher the alpha. Reliability needs to be as high as possible because it sets an upper limit on validity (Straus & Wauchope, 1992).

In the section below, protocols for the development of multi-item measures in terms of unidimensionality, construct validity, reliability and invariance (Anderson & Gerbing, 1982; Steenkamp & Van Trijp, 1991) with sound psychometric properties (Diamantopoulos & Winklhofer, 2001) are discussed.

5.4.1.1 Construct validity

Validity is the extent to which the findings of a study accurately reflect the concept being studied (Babbie & Mouton, 2001; Collis & Hussey, 2003). The validity of a research instrument thus specifically refers to the extent to which it measures what it is supposed to measure (Blumberg, Cooper & Schindler, 2005; Leedy & Ormrod, 2005).

Construct validity is demonstrated when the empirical relationships observed with a measure match the theory (Bagozzi, 1980; Judd, Smith & Kidder, 1991; Peter, 1981). A construct is valid when the set of items (measurable variables) actually measures one thing in common – the theoretical latent construct (dimension) it is designed to measure (Hair, Black, Babin & Anderson, 2010; Hattie, 1985; Jacoby, 1978; Nunnally, 1967; Spector, 1992). Therefore, the underlying items making up a scale measuring a latent construct are alternative indicators of the same construct (Gerbing & Anderson, 1988).

Construct validity lies at the very heart of the scientific process in business research. Valid measurement, according to Peter (1979), is the *sine qua non* of science. Construct validity is a central theme in and the ultimate objective of modern scale development (Cronbach, 1951; Hinkin, 1995) and is thus a necessary condition for theory development and testing. The purpose of research projects such as this one is not only to develop valid and reliable measurement instruments, but also to build and validate theory. Therefore, testing for construct validity is of the essence (Gerbing & Anderson, 1988; Smith, 2005) in business research.

The development of valid measurement instruments is dependent on the ability to accurately and reliably operationalise unobservable constructs (Hinkin, 1995). Operationalisation involves the selection of the appropriate items and scale type to reflect the construct (Hair *et al.,* 2010; Leedy & Ormrod, 2005; Scandura & Williams, 2000; Zikmund, 2003). Construct validity thus refers to degree that conclusions can be drawn from the operationalisations of theoretical constructs. Adequate domain sampling as well as parsimony – the smallest number of items/indicators representing a construct – is important in order to prove content and construct validity (Hair *et al.*, 2010). Too few items may lack content and construct validity, internal consistency and test-retest reliability (Nunnally, 1978), while too many items can create problems with response fatigue or response bias (Anastasi, 1988).

In the literature, it has been proposed (Nunnally & Bernstein, 1994; Churchill, 1979; Bagozzi, 1980; Judd, Jessor & Donovan, 1986; Gerbing & Anderson, 1988; Mackenzie, 2001) that certain criteria should be satisfied before claims of construct validity can be entertained: (1) unidimensionality, (2) within-method convergent validity, (3) reliability, (4) stability, (5) across-method convergent validity and discriminant validity, and (6) nomological validity.

The types of construct validity that are tested for in this study are:

i)   **Face validity**: Face validity refers to the extent to which, on the surface, an instrument appears to be measuring what it is supposed to be measuring (Trochim, 2006; Zikmund, 2003). It a very basic measure of validity and it is unfortunately often used as a substitute for construct validity (Jacoby, 1978). Face validity must be established prior to testing and it is established when the measured items are conceptually consistent with a construct definition (Hair *et al.*, 2010).

ii)   **Convergent validity**: The items of a specific construct should converge or share a high proportion of variance in common, known as convergent validity. Factor loadings and average variance extracted (AVE) are two methods that are available to estimate convergent validity. High loadings on a factor are an indication that they converge on the latent factor. All factors should be statistically significant (0.5 or higher, or ideally, 0.7 or higher). The square of a standardised factor loading represents how much variation in an item is explained by the latent factor and is termed the variance extracted of the item. Thus, a loading of 0.71 squared equals 0.5. The factor is thus explaining half of the variation in the item, with the

other half being error variance. When conducting a confirmatory factor analysis (CFA), the AVE is calculated as the mean variance extracted for the items loading on a construct and is a summary indicator of convergence. An AVE of less than 0.5 indicates that, on average, more error remains in the items than the variance explained by the latent factor structure imposed on the measure. To assess convergent validity, an AVE should be computed for each latent construct in a measurement model (Hair *et al.*, 2010: 709).

iii) **Discriminant validity**: Discriminant validity refers to the extent to which a construct (latent variable/dimension) is truly distinct from other constructs and the extent to which all items are indicators of just one construct (Cooper & Schindler, 2007; Farrell, 2010). By assessing discriminant validity the researcher attempts to establish whether the instrument sufficiently discriminates between the dimensions assessed. Discriminant validity means that a dimension is able to account for more variance in the items associated with it than a) measurement error or other external influences, or b) other constructs within the conceptual framework (Farrell, 2010).

Discriminant validity is confirmed when the average variance extracted (AVE) for a construct is greater than the shared variance between constructs. AVE measures the amount of variance captured by the construct in relation to the amount of variance due to measurement error. A latent construct will correlate with items theoretically related to it and this is called factor loading. To show evidence for discriminant validity, AVE estimates for two factors should be greater than the square of the correlation (shared variance) between the two factors (Fornell & Larcker, 1981; Hair *et al.*, 2010). If correlations are squared, this figure provides the amount of variation in each item that the factor accounts for (i.e. shared variance). When this variance is averaged across all items that relate theoretically to a factor, AVE is calculated (Farrell & Rudd, 2009).

iv) **Nomological validity**: Nomological validity refers to the degree to which a construct behaves as it should within a system of related constructs called a nomological net. According to Rossiter (2002), it is an extension of predictive validity. Testing for nomological validity is done by specifying hypothetical linkages between the construct of interest (in this case corporate reputation) and measures of other constructs (in this case the subscales of the separate dimensions making up the instrument for corporate reputation) and test the simple correlations between them (Podsakoff & MacKenzie, 1994; Schwab, 1980; Spiro & Weitz, 1990).

5.4.1.2 Reliability

Reliability is a necessary but insufficient condition for the validity of instruments. It refers to the degree to which measures are free from error and therefore yield consistent results (Peter, 1979). Reliability is the extent to which the individual indicators or items all measure the same unidimensional construct and the items are closely correlated. A study is reliable if different

researchers obtain similar results when a study is replicated with different research participants at a later stage (Jacoby, 1978; Mouton, 1996; Tull & Hawkins, 1993).

Lee Cronbach (1951) developed the Cronbach's coefficient alpha metric (α), a coefficient of internal consistency, which is commonly used to measure reliability (Cooper & Schindler, 2007). Internal consistency is the average correlation of items in a specific set measuring a construct. It indirectly indicates the degree to which a set of items measures a single unidimensional latent construct (Zinbarg, Yovel, Revelle & McDonald, 2006). Internal consistency reliability is about the uniformity of the items of a scale. A scale is internally consistent if the items are highly intercorrelated. If the items of a scale have a strong relationship to their latent variable, they will also be strongly related. All items must be designed to measure precisely the same thing (Dunn, Seaker & Waller, 1994).

According to Churchill (1979) and Peter (1979), coefficient alpha has become the most commonly used statistic for assessing internal consistency of an instrument to gauge reliability. However, coefficient alpha does not estimate errors caused by factors external to the instrument such as differences in testing situations and respondents over time (Churchill, 1979). Coefficient alpha remains a commonly applied reliability estimate of internal consistency (Cooper & Schindler, 2007).

Coefficient alpha can range between 0.0 and 1.0, but Nunnally's (1978) recommendation of an alpha of 0.7 is widely accepted by researchers as the minimum acceptable standard to demonstrate internal consistency (see also Hair *et al.*, 2010: 695; Hinkin, 1995: 978). A value of 0.6 or less is usually considered to be unsatisfactory. The more highly correlated the items of a scale are, the higher the coefficient alpha will be. A low coefficient alpha indicates that the sample of items performs poorly in capturing the construct (Jacoby, 1978; Noar, 2003; Tull & Hawkins, 1993). According to DeVellis (1991; 2003), the scale needs to be reconsidered in the case of a negative or too low alpha. An alpha between 0.8 and 0.9 is considered to be very good (see also Churchill, 1979: Hinkin, 1995: 975).

Cronbach's coefficient alpha has been criticised as having a lower bound and hence underestimating true reliability. A popular alternative to coefficient alpha is composite reliability, which is a structural equation modelling (SEM) based approach. The claimed benefits of composite reliability include larger estimates of true reliability because construct loadings or weights are allowed to vary, where the loadings for coefficient alpha are constrained to be equal (Peterson & Kim, 2013; Raykov, 2001b). Composite reliability permits an estimation of the reliability index and coefficient of a composite test for congeneric measures. The method is also helpful in exploring the factorial structure of an item set, and its use in scale reliability estimation and development is illustrated. This estimator of composite reliability thus does not possess the general underestimation property of Cronbach's coefficient alpha. According to Bollen (1989), Raykov (2001a, 2001b), and Raykov and Grayson (2003), in the last number of years, interest has increased in structural equation modelling (SEM) based approaches to measuring reliability.

5.4.1.3 Unidimensionality

Unidimensionality refers to the existence of a single construct underlying a set of items. When developing new measurement instruments, researchers usually utilise two or more items that are alternative indicators of the same underlying construct. Most studies investigate posited relationships among several constructs, and are thus characterised by several sets of unidimensional measures. The calculation of a composite score, which provides an estimate of the construct, is meaningful only if each of the measures is acceptably unidimensional (Gerbing & Anderson, 1988).

Unidimensionality (a set of items making up an instrument all measuring one thing in common) is 'a most critical and basic assumption of measurement theory' (Hattie, 1985: 49). It implies that each estimated construct in a scale is defined by at least two indicators and each indicator is intended as an estimate of only one construct (Anderson & Gerbing, 1982; Hunter & Gerbing, 1982; Nunnally, 1978).

According to Gerbing and Anderson (1988), the development and evaluation of scales have traditionally depended on one or more of the following analyses: coefficient alpha, item-total correlations and exploratory factor analysis. Although exploratory factor analysis (EFA) is a useful preliminary technique in scale development, it does not provide an evaluation of the unidimensionality of scales. The factors derived from an EFA do not correspond directly with the constructs represented by each set of items because each factor is defined as a weighted sum of all indicator variables in the analysis. The construction of a scale from an analysis of the size of the factor loadings does not provide an evaluation of the unidimensionality of these scales. Coefficient alpha is important to assess reliability, but it does not assess unidimensionality. Therefore, item-total correlations and exploratory factor analysis are useful preliminary analyses, but they also do not test for unidimensionality.

The instrument development process should include an assessment of whether the multiple items that make up a scale can be regarded as alternative indicators of the same construct. This evaluation to assess unidimensionality is done with confirmatory factor analysis (CFA) (Bentler, 1985; Gerbing & Anderson, 1988; Jöreskog & Sörbom, 1984). CFA, which involves specification and often respecification of the measurement model, is necessary to test unidimensionality and thus to refine a scale. The number of factors and the items loading onto each construct must be known and specified before the analysis can be conducted (Hair *et al.*, 2010). In CFA, each factor is antecedent to a mutually exclusive subset of the indicators. CFA indicates goodness of fit or lack of fit of the multiple-indicator models (Gerbing & Anderson, 1988). Only a CFA of a multiple-indicator measurement model explicitly evaluates unidimensionality. This is made possible by an assessment of the internal consistency and the external consistency criteria of unidimensionality implied by the multiple-indicator measurement model. The essence of this assessment is to test construct validity (Gerbing & Anderson, 1988).

5.4.1.4 Model fit

Chi-square: Model **chi-square (X^2)** is the traditional measure for evaluating overall model fit in covariance structure models (Hooper, Coughlan & Mullen, 2008). The chi-square statistic compares the 'goodness of fit' between the covariance matrix for the observed data and covariance matrix derived from a theoretically specified model; in other words, between the sample and fitted covariance matrices (Fornell & Larcker, 1981; Hu & Bentler, 1999).

If the theoretical model matches the observed data perfectly, the chi-square statistic is zero. The level of significance or alpha is the threshold value that *p*-values are measured against. It thus tells how extreme observed results must be in order to reject the null hypothesis of a significance test.

- For results with a 90% level of confidence, the value of alpha is 1 – 0.90 = 0.10.
- For results with a 95% level of confidence, the value of alpha is 1 – 0.95 = 0.05 (most common).
- For results with a 99% level of confidence, the value of alpha is 1 – 0.99 = 0.01.

The decision on whether to reject the null hypothesis is based upon a predetermined level of significance. To determine if an observed outcome is statistically significant, the values of alpha and the *p*-value are calculated. There are two possibilities that can emerge:

i)   If the *p*-value is less than or equal to alpha, the null hypothesis is rejected. Then the result is statistically significant. The larger the value of alpha, the easier it is to claim that a result is statistically significant and the smaller the value of alpha, the more difficult it is to claim that it is statistically significant. In this case the researcher can be reasonably sure that there is something besides chance alone that gives an observed result. A statistically significant chi-square causes the null hypothesis to be rejected, implying imperfect model fit. A *p*-value of 0.05 or less rejects the null hypothesis at the 5% level. (Diamantopoulos & Siguaw, 2000).

ii)   If the *p*-value is greater than alpha, the null hypothesis is not rejected. In this case, the result is not statistically significant. A good model fit would provide an insignificant result at a 0.05 threshold (Barrett, 2007).

The model chi-square has certain limitations. Firstly, it assumes multivariate normality, and deviations may result in rejection of the model. Secondly, the chi-square statistic is sensitive to sample size and nearly always rejects the model in the case of large samples (Hooper *et al.*, 2008; Singh, 2009). The chi-square is regarded to be a reasonable measure of fit for models with between 75 and 200 cases, but is not recommended for models beyond 400, because with large samples the chi-square is almost always statistically significant (Kenny, 2014). This is an important consideration for this study, as the research was done with large samples.

According to Bagozzi and Foxall (1996), it is not recommended to rely on the chi-square alone as a measure of fit, because it is dependent on the size of the sample. In large samples, even minor deviations of a conceptual model from a true model can lead to the rejection of the conceptual

model. In the case of very small samples, a major deviation from the conceptual model may not be detected. It is therefore advisable to examine other fit indices than the chi-square that are not as sensitive to sample size to assess model fit. The second limitation of the chi-square index is that it does not directly indicate the degree of fit like other indices that are normed from 0 to 1. For the above reasons, alternative measures of fit have been developed to guide assessments of model fit.

The X^2/df ratio has a minimum of 0 (perfect fit) and no theoretical maximum; smaller values of the X^2/df thus indicate a better fit (Taylor, 2008). Kenny (2014) argued that the Chi-square to df ratio (X^2/df) was an old measure of fit and that there was no universally agreed upon standard as to what is the values should be to indicate a good and a bad fitting model (Hayduk, 1987). Wheaton, Muthén, Alwin and Summers (1977) argued that a value of ≤ 5 indicates a good fit.

Satorra-Bentler chi-square: It is well known that multivariate non-normality inflates overall goodness-of-fit test statistics (Kaplan, 2000). Scaling corrections to improve the chi-square approximation of goodness-of-fit test statistics in smaller samples, large models and non-normal data was proposed by Satorra and Bentler (1988, 2001). They developed a set of corrected normal-theory test statistics that adjust the goodness-of-fit chi-square for bias due to multivariate non-normality (if an asymptotic covariance matrix is provided) (Jöreskog, 2004). To correct the regular chi-square value for non-normality, one divides the goodness-of-fit chi-square value for the model by the scaling correction factor (*c*) to obtain the Satorra-Bentler scaled chi-square (Bryant & Satorra, in press 2014).

Root mean square error of approximation (RMSEA): RMSEA is a fit statistic reported in the LISREL program, which indicates how well the model, with unknown but optimally chosen parameter estimates, would fit the population's covariance matrix (Byrne, 1998; Hooper *et al.*, 2008; Singh, 2009).

In recent years, RMSEA has been one of the most reported and is regarded as one of the most informative fit indices when analysing models based on data from large samples (Diamantopoulos & Siguaw, 2000; Hair *et al.*, 2010), due to its sensitivity to the number of estimated parameters in the model (Hooper *et al.*, 2008). The RMSEA is increasingly being used in marketing and business research while the use of the chi-square has been reduced significantly (Martínez-López, Gázquez-Abad & Sousa, 2013).

When using SEM, the null hypothesis is that there is a perfect fit between the data and the model. If the H_0 hypothesis is rejected, one can consider the RMSEA to evaluate close fit. At a 5% level, a RMSEA value of ≤ 0.05 is indicative of close (good) fit, and a value of between 0.05 and 0.08 are regarded as reasonable fit (Browne & Cudeck, 1992; Diamantopoulos & Siguaw, 2000; MacCallum, Browne & Sugawara, 1996; Schumacker & Lomax, 2010). Hair *et al.* (2010) referred to a RMSEA > 0.08 as a poor fit. Hair *et al.* (2010: 667) argued that the RMSEA statistic should be

read in conjunction with other measures and that an absolute cut-off is inadvisable. A perfect fit is considered nearly impossible in marketing research.

One of the most important advantages of the RMSEA statistic is its ability for a confidence interval to be calculated around its value (MacCallum *et al.*, 1996). This is possible due to the distribution values of the statistic, which subsequently allows for the null hypothesis to be tested more accurately. The lower value of the 90% confidence interval is very near 0 (or no worse than 0.05), and the upper value is not very large, i.e. <0.08 (Kenny, 2014).

Expected cross-validation index (ECVI): Whereas RMSEA focuses on error due to approximation, the ECVI focuses on overall error (the difference between the population covariance matrix and the model fitted to the sample). The ECVI measures the adequacy of data from a single sample to characterise an underlying population structure. The ECVI thus assesses whether a model cross-validates across samples of the same size from the same population. It thus measures the discrepancy between the fitted covariance matrix in the analysed sample, and the expected covariance matrix that would be obtained in another sample of equivalent size (Browne & Cudeck, 1989). ECVI is regarded as a useful indicator of a model's overall fit (Diamantopoulos & Siguaw, 2000). To assess a model's ECVI, it must be compared with the ECVI values of other models. The range of ECVI > 0 (small is good). The model with the smallest ECVI value is chosen as representing the greatest potential for replication (Browne & Cudeck, 1992). The 'other models' used for comparison purposes are the independence model and the saturated model. The independence model is a model of complete independence among all variables (all items are uncorrelated) and is the most restricted model. The saturated model is where the number of parameters to be estimated is exactly equal to the number of variances and covariances among the observed variables. A hypothesised model will fall between the independence model and the saturated model (Diamantopoulos & Siguaw, 2000).

Critical N (CN): The CN statistic differs from the other fit measures in that it shows the size that a sample must reach in order to accept the fit of a given model on a statistical basis. According to Diamantopoulos and Siguaw (2000), the number of CN > 200 as an adequate representation of the data has been challenged in the literature and should be used with caution.

Given the complexity of SEM, it is not uncommon to initially find an inadequate model fit. According to Hooper *et al.* (2008), it is good practice to assess the fit of each construct and its items individually to assess whether there are any weak items. Each construct should be modelled in conjunction with every other construct in the model to determine whether there is sufficient evidence of discriminant validity.

Construct validity can be enhanced when the fit between the questionnaire items (manifest variables) and the measurement model is improved. To assess model fit, the squared multiple

correlations (item reliability of individual items), the standardised residuals and the modification indices should also be inspected.

Squared multiple correlations: In CFA squared multiple correlations represent the extent to which an item's variance is explained by a latent factor (how well an item measures a construct). Squared multiple correlations are sometimes referred to as item reliability, communality (in EFA) or variance extracted. In a congeneric measurement model, where no item loads on more than one construct, they are a function of the loading estimates (Hair *et al.*, 2010).

Standardised residuals: Standardised residuals are the raw residuals divided by the standard error of the residual. Residuals refer to the individual differences between observed covariance terms and the fitted (estimated) covariance terms. The better the fit, the smaller the residuals. A residual term is associated with every unique value in the observed matrix. Residuals can be positive or negative. These values can be used to identify item pairs for which the specified measurement model does not accurately predict the observed covariance between those two items. Standardised residuals of < 2.5 do not suggest a problem, while residuals > 4.0 (significance level 0.001) raise a red flag and suggest a potentially unacceptable degree of error (Hair *et al.*, 2010: 711).

Modification index: In SEM, a modification index is calculated for every possible relationship that is not estimated in the model. Modification indices of ≥ 4.0 suggest that the fit could be improved significantly by freeing the corresponding path to be estimated. Modification indices are important tools for identifying problematic items that exhibit potential for cross-loadings, but it is not recommended that model changes are made based solely on these indices (Hair *et al.,* 2010).

5.4.1.5 Measurement invariance

Invariance testing pertains to the question whether the multi-group measurement model parameters differ across different groups sampled from different populations (as in the case of this study with its two different sets of clients from two separate sectors of the service industry) and, in the case of cross-validation research, whether multi-group measurement models are defined in terms of different samples from a single population (Dunbar, Theron & Spangenberg, 2011; Vandenberg & Lance, 2000). Desirable properties of multi-item self-report measurement instruments (where respondents report on their personal beliefs and attitudes) can be established within the CFA by testing the cross-group invariance of the instrument's psychometric properties. Construct validity of item sets can be tested, i.e. it can be examined whether item sets are indirect measures of hypothesised latent variables. Furthermore, CFA can test whether evidence of construct validity is invariant across two or more population groups, as well as whether group comparisons of sample estimates reflect true group differences. Quantitative comparative research requires that instruments measure constructs with the same meaning across groups and allows defensible quantitative group comparisons (Gregorich, 2006).

Without evidence that supports the invariance of an instrument, the basis for drawing scientific conclusions is severely hampered (Vandenberg & Lance, 2000; Steenkamp & Baumgartner, 1998).

Two approaches to testing for measurement invariance are utilised by researchers, namely confirmatory factor analysis (CFA) and item response theory (IRT), with CFA generally judged by researchers to be more sensitive to sample size (Meade, Johnson & Braddy, 2008; Meade & Lautenschlager, 2004a, 2004b).

A hierarchy of tests for measurement invariance exists, which logically defend specific quantitative group comparisons. The tests of invariance – in order of strictness from low to high – are:

i) **Configural invariance**

Based on the guidelines of Vandenberg and Lance (2000) and Steenkamp and Baumgartner (1998), the first requirement in invariance assessment is to assess the configural invariance of the model (Meade *et al.*, 2008). Configural invariance is the least restrictive assessment of invariance, and only assesses the invariance of the factor structure of the model in the two samples. Configural invariance is a prerequisite for subsequent assessments and thus for increasingly stricter assessments of invariance (Vandenberg & Lance, 2000). Configural invariance implies that the structure of the model is the same, in this case, in both groups, in other words, that each common factor is associated with identical item sets across groups. In addition, all salient factor loadings are significantly and substantially different from zero, and the correlations between factors are significantly below unity (Steenkamp & Baumgartner, 1998).

ii) **Weak (metric) invariance**

To assess weak invariance, the structure of the model must be the same across groups, and the factor loadings of the model must be constrained to be the same in all groups (Steenkamp & Baumgartner, 1998). To prove weak invariance, a model in which the factor loadings are constrained to be equal in both groups must yield a close fit to the data. Weak invariance requires corresponding factor loadings to be equal across groups, which provides evidence that corresponding common factors have the same meaning across groups. Identical relationships between the factors and the responses to a common set of relevant items are expected. CFA models allow for simultaneous estimation of factor loadings across groups and provide a statistical test of the equal-loadings hypothesis. Weak invariance is tested by imposing equality constraints on corresponding factor loadings and fitting the factor model to sample data from each group at the same time (Gregorich, 2006).

iii) **Strong (scalar) invariance**

To assess strong invariance the structure of the model must be the same across groups, the factor loadings of the model must be the same, and the vector of regression intercepts must be constrained to be the same in all groups. It addresses the question whether the latent means are consistent in both groups (Steenkamp & Baumgartner, 1998). Forces that are unrelated to the

common factors, such as cultural norms, may systematically show higher or lower-valued item response in one population group compared to another. This response style is additive, which affects observed means, but does not affect response variation. These additive influences could contaminate estimates of group mean differences. In the CFA model, item intercepts reflect these systematic, additive influences on responses to corresponding items that are constant in each group and are unrelated to the common factors. Assuming metric invariance, strong factorial invariance additionally requires that the regressions of items onto their associated common factors yield a vector of intercept terms that is invariant across groups. The conclusion of strong invariance will depend on whether the intercepts on the model differ in the two samples (Gregorich, 2006).

iv)   **Strict (error variance) invariance**

The strict factorial invariance model imposes cross-group equality constraints on corresponding factor loadings, item intercepts and item residual variances. The strong factorial invariance model is thus further restricted so that corresponding item residual variances are invariant across groups. When this happens, they will cancel each other when group differences in observed means and variances are estimated. To assess strict invariance, the structure of the model must be the same across groups, the factor loadings of the model must be the same, the vector of regression intercepts must be the same and the measurement error variance-covariance matrix must be constrained to be the same in all groups (Steenkamp & Baumgartner, 1998).

v)   **Complete invariance**

In the case of complete invariance, the structure of the model must be the same across groups, the factor loadings of the model must be the same, the vector of regression intercepts must be the same, the measurement error variance-covariance matrix must be the same, and the latent variable variance-covariance matrix must be constrained to be the same in all groups (Steenkamp & Baumgartner, 1998).

5.4.2   Statistical techniques to ensure construct validity

5.4.2.1 *Exploratory factor analysis*

Exploratory factor analysis (EFA) is the most commonly used analytic technique utilised to reduce a large number of items to a more manageable set and thus to refine constructs, as was the case in this study (Gerbing & Anderson, 1988; Bagozzi & Foxall, 1996). Factor analysis is considered vital to support any claim of discriminant validity of newly developed measurement instruments (Farrell, 2010; Hinkin, 1995; Worthington & Whittaker, 2006).

EFA explores the data and provides information on how many dimensions are needed to best represent the data. The technique produces a loading for every item on every dimension (Hair *et al.,* 2010). EFA is used to explore and identify the factor structure (dimensions or latent variables) of a new instrument based on the items (manifest variables) that loaded on these factors (Hinkin, 1995; Worthington & Whittaker, 2006). The items that load poorly (< 0.4) onto a factor or

simultaneously loaded onto multiple factors are removed. According to Hair *et al.* (2010: 693), three is the accepted minimum number of items for each construct, and five to seven items should represent most constructs.

5.4.2.2 Structural equation modelling (SEM)

Many of the earlier attempts to develop an instrument to measure corporate reputation have used rather straightforward techniques such as coefficient alpha, exploratory factor analysis, and bi-variate correlations to assess the criteria for construct validity. While these traditional techniques are valuable, the emergence of covariance structure models and the widespread availability of accompanying software programs such as LISREL, EQS and MPlus provide the researcher with powerful tools for more detailed assessment and refinement of the construct validity of marketing measurement instruments (Mackenzie, 2001).

Thanks to the pioneering work of statisticians such as Browne and Arminger (1995), Jöreskog (1973), Jöreskog and Sörbom (1982, 1984, 1993, 1997), Jöreskog and Goldberger (1975) and others, and social scientists like Bagozzi (1980), Bentler (1990), Hayduk (1987) and Mulaik, James, Van Alstine, Bennet, Lind and Stilwell (1989), researchers today have a multivariate technique known as structural equation modelling (SEM) at their disposal. The introduction of modern statistical techniques such as SEM introduced a new level of sophistication to the development of new scales and proved to be useful in solving practical problems in marketing (Jöreskog & Sörbom, 1982).

SEM (also known as covariance structure analysis) is a general statistical modelling technique which is widely used today in the behavioural sciences and business research as it allows for the testing of various models to enhance confidence in the structure and psychometric properties of new scales (Hair, Black, Babin, Anderson & Tatham, 2006). It can be seen as a combination of factor analysis and regression or path analysis (Hox & Bechger, 1998). The foundations of SEM lie in classical measured variable path analysis (Wright, 1918) and confirmatory factor analysis (Jöreskog & Sörbom, 1982, 1997). Traditional data analytical techniques such as the analysis of variance, the analysis of covariance, multiple linear regression, canonical correlation and exploratory factor analysis, as well as measured variable path and confirmatory factor analysis, can be regarded as special cases of SEM (Mueller & Hancock, 2008: 488).

SEM has two major primary advantages over the traditional methods pertaining to the construct's empirical and theoretical meaning. Firstly, SEM allows for the estimation of the theoretical structure of the measurement instrument, i.e. the estimation of multiple interrelated dependence relationships and the ability to represent the construct and other constructs in these relationships, thus providing statistical tests of construct dimensionality (the relationship of the construct to its measures). Secondly, SEM estimates the relationships among constructs free from measurement error, unlike, for example, regression analysis (Mackenzie, 2001; Singh, 2009). This technique has

enabled researchers, for the first time, to explain a structure or a pattern, or a series of inter-related dependence relationships simultaneously among a set of latent constructs (unobserved, non-measurable or theoretical), each measured by one or more manifest (observed, empirical or measurable) variables that are measures or indicators (usually questionnaire items) of the unobservable latent variable, and has allowed researchers to objectively compare a theoretical model with empirical data (Mackenzie, 2001).

Both advantages are relevant and valuable for theory development and testing in marketing science, as well as in applied settings where unbiased estimates of the measure's reliability, stability and validity are also of importance (Mackenzie, 2001).

As SEM matured, previous guidelines such as the 'maximization of sample size', are no longer appropriate. A number of factors are important when making a decision on sample size. Hair *et al.* (2010: 662) suggests the following minimum sample sizes:

i)   100: models with five or fewer constructs, each with more than three items, and with high item communalities (0.6 or higher).

ii)   150: models with seven or fewer constructs, modest communalities (0.5), and no under identified constructs.

iii)   300: models with seven or fewer constructs, lower communalities (below 0.45), and/or multiple under identified (fewer than three items) constructs.

iv)   500: models with large numbers of constructs, some with lower communalities, and/or having fewer than three measured items.

The sample sizes in this study were larger than 300 in each of the six cases (two samples each in three waves) are thus more than adequate for use in SEM.

The SEM technique offers new indices of construct/item reliability that are more accurate than traditional methods, as well as more rigorous procedures for evaluating discriminant validity. When cross-validating a measuring scale, SEM offers the researcher a powerful tool to also assess convergent validity. In addition, by using SEM, one can assess the stability of a measuring instrument by placing increasingly stringent restrictions on the model as the validation process proceeds (Steenkamp & Van Trijp, 1991).

5.4.2.3 Confirmatory factor analysis

In the case of exploratory factor analysis, the factor structure is explored. The number of latent factors (dimensions) and the relationships between the dimensions and the items are not known at the outset. The model is arbitrary – all items load onto all factors. In the case of confirmatory factor analysis (CFA) in SEM, however, the model is imposed on the data. CFA, which provides a rigorous specification and often respecification of the measurement model, is necessary to test unidimensionality and thus to refine a scale. The number of factors and the items loading onto each construct must be known and specified before the analysis can be conducted (Hair *et al.,*

2010). Once specified, estimates of the parameters of the model (the factor loadings), the variances and covariances of the factor, and the residual error variances of the observed variables (items) can be obtained (Hox & Bechger, 1998).

5.4.3   Best practice in scale development proposed by leading researchers

In this section, new thinking regarding scale development is discussed. The procedures recommended by DeVellis (2003), Hinkin (1995), Rossiter (2002) and Worthington and Whittaker (2006) are explored in some detail.

5.4.3.1 DeVellis' guidelines for scale development

DeVellis (1991, 2003) proposed eight steps for new scale development. Firstly, the construct should be clear and well formulated, and well-grounded in substantive theories. A tentative theoretical model of how the construct relates to other phenomena is preferable. The content of each item should reflect the construct (latent variable). Multiple items are developed to ensure a reliable test because, in theory, the universe of items is infinitely large. At this stage, redundancy is acceptable and it is not unusual to begin with a pool of items three or four times as large as the final scale. According to DeVellis (2003), Likert scaling is widely used when measuring opinions, beliefs and attitudes. Statements should be stated in clear terms. The definition of the construct should be reviewed and confirmed by experts and a panel should be asked to rate each item as to its relevance against the defined construct. After a final decision regarding the items has been reached, the draft scale is administered to a large sample of subjects. The sample should be adequately large to eliminate subject variance (300 respondents are generally regarded as sufficient).

An item must be highly correlated with the true score of the latent variable. The higher the correlations among items, the higher the individual item reliabilities are and the more intimately they are related to the true score. Each individual item should also correlate substantially with the remaining items. Another valuable attribute for a scale item is relatively high variance. This means that the range of scores obtained must be diverse. A mean close to the centre of the range of possible scores is desirable. The set of items should be unidimensional and, according to DeVellis (2003), a way of determining unidimensionality is by means of an exploratory factor analysis. Once the 'good' items have been selected, coefficient alpha is one way of evaluating how successful the selection process has been. Theoretically, alpha can have a value between 0.0 and 1.0. An alpha between 0.8 and 0.9 is considered to be very good.

DeVellis (2003) believed that researchers often need to do a trade-off between brevity (a shorter scale, which is less of a burden to respondents) and reliability (a longer scale). If the development sample is sufficiently large, the data may be split into two subsamples. The first one can serve as the primary development sample and the second one can be used to cross-validate. This cross-validation will give valuable information at this stage of the scale development.

5.4.3.2 Hinkin's recommendations for scale development

Hinkin (1995) studied 277 scales developed and published between 1989 and 1994, and made recommendations for 'best practices'. He concluded that all scales should demonstrate content validity, construct validity and internal consistency. He suggested three basic stages, namely item generation, scale development and scale evaluation (also see Schwab, 1980), which is shown in Table 5.1.

Table 5.1: Hinkin's three-stage approach to scale development

Stages	Description
1. Item generation	1.1 Content validity is an important first step. The construct must adequately capture the specific domain and nothing more. Construct definitions are critical. 1.2 Deductive or inductive item generation can be used. Deductive development happens when researchers tap a previously defined theoretical universe. Inductive development happens when respondents provide descriptions about behaviour of organisations (MacKenzie, Podsakoff & Fetter, 1991). 1.3 A clear link between items and their theoretical domain is necessary. 1.4 Enough items have to be created to allow for deletion.
2. Scale development	*2.1 Design of the developmental study* 2.1.1 Important considerations are choice of sample, sample size, response rates, the number of items, positively versus negative worded items, variance among respondents, and the type of scale (e.g. Likert). *2.2 Scale construction* 2.2.1 Important considerations are factor analytical techniques (e.g. exploratory and confirmatory factor analysis) to assess stability of the factor structure, satisfactory item loadings and percentage variance, rationale for the retention and deletion of items, goodness-of-fit, etc. *2.3 Reliability assessment (internal consistency reliability)* 2.3.1 Considerations include the consistency of items, stability of the scale over time and internal consistency reliability.
3. Scale evaluation	3.1 Confirmatory factor analysis (CFA) is used frequently in modern scale development. 3.2 A stable factor structure provides evidence of construct validity. 3.3 Discriminant validity is regarded as important. 3.4 The use of an independent sample enhances generalisability.

Source: Hinkin, 1995: 967-983.

5.4.3.3 Rossiter's procedure for scale development

Rossiter (2002) proposed an alternative procedure – the C-OAR-SE method – for scale development to measure a construct, which he claimed to be a 'paradigm shift'. The C-OAR-SE procedure relies on logical arguments, and the concurrence of experts, based on open-ended input from pre-interviews. The only type of validity that is considered essential in this procedure is content validity He argued that the measurement of many constructs is of suspect validity, which had prevented the development of good theories. He criticised Churchill's (1979) method and argued that the latter is only a subset of the C-OAR-SE procedure. He contended that the

traditional procedure of scale development, with its emphasis on factor analysis and internal-consistency reliability (coefficient alpha), led to the deletion of conceptually necessary items in the pursuit of factorial unidimensionality, to unnecessary and inappropriate items obtaining high alphas, and to the use of high alphas as the solitary evidence of scale validity. According to Rossiter, construct validity and predictive validity were inappropriate for scale evaluation while reliability should be regarded only as a precision-of-score estimate (Rossiter, 2002; 2005).

Rossiter (2002) also made the point that with different rater entities (e.g. different stakeholder groups) constructs (like corporate reputation) will also differ. According to him, the conceptual definition should specify the object including the main constituents or components, the attribute and its main components, and the rater entity (the perceiver's perspective). For corporate reputation to be regarded as a construct, according to the C-OAR-SE approach, an attribute has to have a focal object, such as 'corporate reputation in service firms' or 'corporate reputation of a bank'. The construct also has to specify a rater entity, for example 'corporate reputation in the services industry from the perspective of clients'.

Rossiter received both accolades and criticism for his alternative C-OAR-SE method. Finn and Kayande (2005) commended Rossiter for refocusing on the conceptualisation of constructs, but warned that greater concern over conceptualisation, including content validity, is necessary, but not sufficient. Rossiter's procedure, according to them, lacked empirical validation of the conceptualisation of constructs. They recommended an integrated umbrella approach to both conceptual rigour and empirical validation, and offered their multivariate generalisability theory (MGT). Diamantopoulos (2005: 1-9) praised Rossiter for showing that there are different ways of developing scales, beyond classical theory, the domain sampling model and coefficient alpha. He agreed with Rossiter that practices such as the mechanistic application of exploratory factor analysis models to identify the dimensionality of constructs and the adherence to the 'magical' 0.7 coefficient alpha level were 'absurd'. He disagreed with Rossiter, however, on a number of issues. Diamantopoulos (2005) declared that the conceptual definition of a construct need not specify the object, the attribute and the rater, and suggested that a construct could be determined in as many time-related (past/present/future) and space-related (situations/persons) contexts as the author of the definition chooses. Another point he made was that the important differences in using indexes versus directly modelling a latent variable by means of indicators (formative or reflective) should have been acknowledged by Rossiter. He also criticised Rossiter's total reliance on expert judgement and content validity, and the dismissal of other forms of validity such as discriminant validity.

Rossiter (2002) proposed seven main steps for the generation and selection of items to design a measure. The procedure is summarised in Table 5.2.

Table 5.2: Rossiter's procedure for the development of measurement instruments

Main steps	Description
Construct definition	• Write an initial definition of the construct in terms of object, attribute and rater entity.
Object classification	• Do open-ended interviews with a sample of the target raters. • Classify the object as concrete singular or abstract collective, or abstract formed. • Generate item parts to represent the object (one if concrete singular, multiple if abstract collective or abstract formed).
Attribute classification	• Do open-ended interviews with a sample of the target raters. • Classify attribute as concrete, or formed or eliciting. • Generate item parts to represent the attribute (one if concrete, multiple if formed or eliciting).
Construct definition (continued)	• Add to the construct definition, if necessary, object constituents or components, and attribute components.
Rater identification	• Identify the provider of the object-on-attribute judgment (rater entity) as the individual, a set of expert judges or a sample of stakeholders, e.g. consumers. • Determine whether reliability estimates are needed across raters, and across attribute item parts if it is an eliciting attribute.
Scale formation	• Combine the object and attribute item parts as items for the scale. • Select appropriate rating scales (answer categories) for the items (preferably with input from the open-ended interviews). • Pre-test each item for comprehension with a pre-test sample of raters. • If the attribute is eliciting, additionally pre-test the attribute items for unidimensionality. • Randomise the order of multiple items across object constituents or components and attribute components.
Enumeration	• When applying the scale, use indexes and averages, as appropriate, to derive the total scale score. • Transform the score to a meaningful range (0-10 for an index, 0-10 for a unipolar attribute, -5 to +5 for a bipolar attribute). • Report an estimate of the precision (reliability) of the score for this application.

Source: Rossiter, 2002: 305-335.

5.4.3.4 *Worthington and Whittaker's recommendations for scale development*

Worthington and Whittaker (2006) conducted a content analysis of all new scale development articles appearing in the *Journal of Counseling Psychology* from 1995 to 2004 and explored exploratory and confirmatory factor analysis procedures with respect to sample characteristics, factorability, extraction methods, rotation methods, item deletion or retention, factor retention and model fit indices.

Worthington and Whittaker (2006) suggested eight steps for the construction of new scales (see Table 5.3). They suggested steps, which are similar to those of other researchers. They emphasised, though, that a shorter scale is preferable, and recommended the inclusion of

validation items for correlation purposes. They recommend typical SEM approaches such as CFA and goodness-of-fit indices.

Table 5.3: Worthington and Whittaker's procedure for scale development

Stages	Description
1. Determine clearly what you want to measure	1.1 The construct must be defined clearly and have a sound theoretical foundation. 1.2 Attributes of abstract constructs must be defined.
2. Generate an item pool	2.1 Generate a pool of items to tap for the construct. 2.2 The items must clearly represent the construct so that factor-analytic, data-reduction techniques yield a stable set of underlying factors. 2.3 Poorly worded items are sources of error variance and reduce the strength of correlations.
3. Determine the format of the measure	3.1 The questionnaire should be kept as short as possible. Long questionnaires increase the likelihood of respondents not completing them.
4. Have experts review the initial item pool	4.1 A review of the items by knowledgeable people (experts) to assess item quality is a critical step (to ensure content validity). 4.2 Clarity, conciseness, grammar, reading level, face validity and redundancy are important. New items can also be added.
5. Consider the inclusion of validation items	5.1 Assessing the convergent and discriminant validity (e.g. correlation with other scales) is an important step.
6. Administer items to a sample	6.1 A key validity issue is the replication of the hypothesised factor structure using a new sample (split large samples in two). 6.2 Sample sizes of 150 to 200 are likely to be adequate, and 300 are considered generally sufficient.
7. Evaluate the items	7.1 Utilise Exploratory Factor Analysis (EFA). 7.2 The use of purposeful sampling or a combination of purposeful and convenience sampling is considered to be in order, although not ideal. 7.3 Considerations include factorability of correlation matrix, extraction methods, criteria for determining rotation method, and criteria for factor retention. 7.4 Typical SEM approaches should be used, such as CFA, goodness-of-fit indices, model fit and model modification.
8. Optimise the scale length	8.1 Set criteria for item deletion or retention, optimising scale length.

Source: Worthington and Whittaker, 2006: 806-834.

5.5   CONCLUSION

In this chapter, both traditional and modern approaches to the development of measurement instruments were discussed.

Most researchers agree that poor validity and reliability of instruments have been a problem in marketing and business research over many years, which have led to inaccurate instruments and poor decision-making. Modern scale developers emphasise the importance of the unidimensionality of instruments, which can be assessed by confirmatory factor analysis, a

technique that was not available in earlier years. Testing for invariance has become an important issue when developing new scales and the invariance hierarchy is explored in some detail.

Testing for construct validity is central to scientific business research. Construct validity implies that the items making up a scale to measure a latent construct are alternative indicators of the same construct. Traditional techniques such as coefficient alpha, exploratory factor analysis and bi-variate correlations that were used to assess construct validity have now been replaced with the emergence of covariance structure models and the availability of software programs such as LISREL. With the introduction of structural equation modelling (SEM), major advantages became available to scale developers. SEM tests for construct dimensionality, explaining a series of interrelated dependence relationships simultaneously among a set of latent constructs.

In the Chapter on Research Methodology (Chapter 7), the exact procedures and techniques that were followed to develop the instrument to measure client-based corporate reputation will be discussed.

In Chapter 6, various approaches to the conceptualisation and operationalisation of corporate reputation, as well as previous attempts to develop instruments to measure this construct, are discussed. Researchers have focused on, among others, the measurement of the actual attributes (beliefs and attitudes) of corporate reputation (measured against the expectations of stakeholders), the measurement of corporate reputation by means of corporate character scales, and the measurement of antecedents and consequences of corporate reputation. Attempts to measure corporate reputation from the perspective of clients, as well as attempts to measure corporate reputation in a services setting are investigated in detail.

CHAPTER 6

THE MEASUREMENT OF CORPORATE REPUTATION

'Reputations reflect behaviour you exhibit day in and day out
through a hundred of small things. The way you manage your reputation
is by always thinking and trying to do the right thing every day.'
- Ralph Larson, former CEO of Johnson & Johnson

6.1   INTRODUCTION

In Chapter 2, the concept of corporate reputation as a strategic intangible asset and source of competitive advantage was discussed in depth. The definitions and formation of corporate reputation were deliberated. The concept of *client-based corporate reputation* in the service industry was defined and described for the purpose of this study.

In Chapter 3, corporate concepts related to *corporate reputation – corporate identity, corporate image* and *corporate brand* – were discussed. The conclusion was drawn that corporate reputation was well established as a separate construct, although some confusion still exists about what exactly constitutes corporate reputation.

In Chapter 5, an overview of traditional and modern scale development was provided. Emphasis was placed on the critical protocols in modern scale development, such as construct validity, reliability, model fit and invariance. Contemporary approaches such as confirmatory factor analysis and structural equation modelling were discussed in detail. The work of researchers who had influenced scale development was reviewed.

In this chapter, different approaches to the conceptualisation of corporate reputation and different approaches to the operationalisation of the dimensions constituting corporate reputation are discussed. A large number of measurement approaches and protocols have been identified in the literature. Researchers such as Barnett *et al.* (2006), Berens and Van Riel (2004), Caruana and Chircop (2000), Clardy (2012), Dowling and Gardberg (2012), Fombrun and Van Riel (1997), Lange *et al.* (2011), Money and Hillenbrand (2006a, 2006b), Sarstedt, Wilczynski and Melewar (2013), Walker (2010) and Wartick (2002) studied and reported extensively on the various approaches of measuring corporate reputation.

Some researchers have measured the actual attributes that make organisations attractive (beliefs and attitudes about corporate reputation); in other words, they measured reputation against the background of the expectations of stakeholders of organisations. Fewer have measured the concept using corporate character scales. In this chapter, the antecedents and outcomes of corporate reputation and the measurement thereof are explored. The main focus of this chapter, however, is a discussion of the few attempts to measure corporate reputation from the perspective of the client stakeholder group in a services setting.

6.2   THE IMPORTANCE OF MEASURING CORPORATE REPUTATION

The importance of corporate reputation in realising business success is clear when one analyses the large body of literature that has accumulated over the past few decades. The focus on corporate reputation is also evident from the increasing number of rankings, ratings and measurement tools that feature strongly in the corporate reputation literature (Fombrun *et al.*, 2000; Fombrun & Shanley, 1990; Gardberg & Fombrun, 2002; Lloyd, 2007; Schultz *et al.,* 2001).

The notion of corporate reputation also features prominently in the public media. Fombrun (2007) identified 183 public lists that provide summary ratings and rankings of companies in 38 countries. The majority of these lists measure overall reputation or evaluate the workplace ('good company to work for'). Also in South Africa, rankings and ratings play a significant role, and six major lists in the general category were identified in the Fombrun (2007) study, namely *Business Report's* SA Top Companies, *Finance Week's* Best companies to work for, *Financial Mail's* FM Top 100, *Sunday Times'* Top Brands Survey, *Sunday Times Business Times'* Top 100 Companies and the *Top 300 Companies* website's South Africa's Top 300 Empowerment Companies.

The majority of researchers, including Muller and Kraussl (2011), concurred that corporate reputation is linked to past corporate performance, and thus also expectations regarding performance, and should therefore be measured according to corporate performance criteria. Others, such as Obloj and Capron (2011), stressed that corporate reputation stemmed mainly from ratings by external groups.

6.3   ISSUES WITH DEFINITION AND MEASUREMENT

According to leading authors in the field, a number of issues and challenges remain with regard to the conceptualisation and measurement of corporate reputation that have hampered progress in the field (Dowling & Gardberg, 2012). Wartick (2002) identified three major gaps in the literature, namely a lack of consensus regarding a definition, weak methods to operationalise the construct and a lack of theory development.

6.3.1   Definition and construct confusion

Various approaches have been used to measure corporate reputation. Dowling and Gardberg (2012) classified these measurement approaches into four categories, depending on the data sources and the unit of measurement used. Regardless of the approach, however, the fundamental building block remains 'a clear definition of reputation' (Dowling & Gardberg, 2012: 42).

Many researchers expressed the need for a clear and comprehensive definition of corporate reputation. The definition is of utmost importance, because the operationalisation of a construct is linked to its definition (Dowling & Gardberg, 2012; Mahon, 2002; Walker, 2010; Wartick, 2002). As

pointed out in Chapter 2, there is a lack of consensus among researchers about what exactly a corporate reputation entails (Barnett *et al.,* 2006).

Despite the number of measurement instruments that have been developed in the field, some instruments are problematic, owing mainly to the confusion between *corporate reputation* and other overlapping concepts such as *corporate brand*, *corporate identity* and *corporate image* (Dowling & Gardberg, 2012; Jensen *et al.,* 2012). These related concepts were discussed in detail in Chapter 3.

Despite the apparent confusion about a definition of the concept of corporate reputation, there appears to be a fair amount of agreement on several characteristics of the concept: *corporate reputation* is intangible (Larkin, 2003), it is based on direct and indirect past behaviours and experiences (Shamma & Hassan, 2009), it is based on perceptions (Wartick, 2002), and it is multi-dimensional (Agarwal *et al.*, 2014). More importantly, corporate reputation appears to be an 'attitude-like evaluating judgment of a firm' (Walsh & Beatty, 2007: 129).

6.3.2   Theory development, measurement and construct validity

Several authors pointed out that there is a need for rigorous theory development and the valid operationalisation of *corporate reputation* (Walker, 2010). According to Dowling and Gardberg (2012), the cognitive (beliefs), affective (attitudes) and conative (future behaviour) dimensions of corporate reputation are often mixed up and the question can be raised whether these dimensions are independent or causally related.

A large body of knowledge is concerned with the measurement of corporate reputation. Some measures do exist, some of which are of dubious quality while the rigour of others is questionable (Barnett & Pollock, 2012; Caruana & Chirop, 2000; Money & Hillenbrand, 2006a, 2006b). Some of the problems arose because of a disconnect between theoretical development and empirical research (Jensen *et al.*, 2012). Groenland (2002) reached the conclusion that there is doubt regarding the validity, reliability and range of some measurement instruments. Jarvis, Mackenzie and Podsakoff (2003) also raised concern about construct validity and associated measurement issues.

Decades after the initial attempts to measure corporate reputation, there are many who call for improved methodologies and more valid instruments to measure corporate reputation, based on rigorous theoretical and conceptual development (Clardy, 2012).

6.3.3   Different reputations for different stakeholders

One important question that remains unanswered is whether corporate reputation is the same construct for different stakeholders or whether it should be conceptualised differently for the different stakeholder groups. Until recently, there has been a widely accepted view that corporate reputation is an aggregation of all stakeholders' beliefs and attitudes towards an organisation

(Fombrun, 1996). Following Fombrun, several authors have defined corporate reputation as the aggregate perception of all stakeholders combined (Flanagan & O'Shaughnessy, 2005; Safón, 2009; Zyglidopoulos, 2005).

According to Smaiziene and Jucevicius (2010; 2013) and Walker (2010), this view, which fails to distinguish between the differentiated reputations as seen from the perspective of separate stakeholder groups, has evoked more and more criticism lately. It has become clear from the literature that evaluations of an organisation will differ between stakeholder groups (Balmer & Greyser, 2006). Vidaver-Cohen (2007) suggested a framework for examining how and why corporate reputation differs across stakeholder groups.

Until now, though, no researcher has managed to measure, in one study, the reputation of an organisation based on all the stakeholders' perspectives, and any measurement is likely to measure only a portion of the overall reputation, 'sacrificing information per stakeholder group' in an effort to measure the collective perception (Walker, 2010: 372). Davies (2011) warned that a scale developed in one context (with one stakeholder group, in one type of industry, in one country) should not be assumed to be valid in different contexts. Clients, therefore, will not necessarily have the same opinion of a particular organisation as another stakeholder group of the same organisation, such as the employees.

Walker (2010) also concurred that reputations will differ among various stakeholder groups, and argued that one cannot investigate the construct among one stakeholder group (e.g. clients) and claim it to be *the* corporate reputation, because of corporate reputation being a collective construct. Dowling and Gardberg (2012) warned that care needs to be taken to cluster respondents into homogeneous groups when analysing the data statistically.

Despite these contributions, Graham and Bansal (2007) argued that there is still a dearth of information about clients' (customers'/consumers') assessments of corporate reputation. It is thus still early days in the understanding of the dimensions of corporate reputation by individual groups such as clients.

Against this background, it is argued, for the purpose of this study, that a 'separate' corporate reputation does exist for every stakeholder group and that it should be measured from the perspective of the particular group (clients in this case).

6.3.4   Reputation as issue-based construct

Walker (2010) made the point that reputation is issue-based and therefore only one reputation could exist per issue. Lewellyn (2002) believed that the measurement of reputation should include the important question: 'A reputation for what?' The claim that every reputation is issue-based can be questioned. The researcher is of the opinion that people will form their opinions of an organisation regardless of the existence of current or specific issues. Clients, for example, will

evaluate an organisation as a whole whether or not there is a particular important issue regarding the organisation at that point in time.

6.3.5   Reputation in an industry-specific context

A few authors (Dolphin, 2004; Dowling & Gardberg, 2012; Fombrun, 1996; Tucker & Melewar, 2005) predicted that the corporate reputation of organisations would be evaluated differently, depending on the industry in which the particular organisation operates. Research is thus lacking on how an organisation's corporate reputation is evaluated in the service industry specifically, where services are mostly bought on trust.

6.4   MAJOR APPROACHES TO MEASURING CORPORATE REPUTATION

According to Goldberg and Hartwick (1990), the simplest way to measure corporate reputation was to ask people how they rate an organisation. This method will result in a single 'reputation score'. However, more comprehensive efforts than this were made over the last decades to operationalise and measure the construct.

Several researchers explored the different approaches to the measurement or corporate reputation. Berens and Van Riel (2004) identified three approaches: 1) reputation in terms of stakeholders' assessment of an organisation' s performance and behaviour in the light of their expectations; 2) reputation in terms of the personality (character) metaphor; and 3) reputation in terms of trust.

The following approaches to the measurement of corporate reputation are discussed in the sections below:

i)   Measurements of attributes (beliefs and attitudes) that make an organisation attractive, based on stakeholder expectations of performance and behaviour (Bartikowski & Walsh, 2011; Raithel *et al.,* 2010; Roberts & Dowling, 2002; Schwaiger *et al.*, 2009; Walker, 2010).

ii)   Measurements based on corporate character attributes (Davies, 2013; Davies, 2011; Davies *et al.*, 2001, 2004).

iii)   Measurements of the antecedents and outcomes (consequences) of corporate reputation (MacMillan *et al.*, 2000; MacMillan *et al.*, 2005).

iv)   Mixed and combined reputation measurements (Dowling, 2004a, 2004b; Lloyd, 2007).

v)   Client-based (customer-based) corporate reputation measurements (Walsh & Beatty, 2007; Walsh, Beatty & Shiu, 2009).

6.4.1   Reputation measurements of the perceptions of the attributes that make an organisation attractive

The most frequently used approach to measure corporate reputation is by measuring the perceptions (beliefs and attitudes) regarding the attributes of organisations, based on stakeholders' expectations of organisations' performance and behaviour. According to this approach, an

organisation that fulfils the expectations of its stakeholders will generate a favourable response. The corporate reputation performance score will therefore be high because the organisation has done what it is supposed to be doing (Berens & Van Riel, 2004). Davies (2011) observed that there are two main types of reputation measures, cognitive and affective, or a blend of both. Cognitive measures are rational assessments of the organisation's performance in various areas that determine the favourability of its reputation, while affective measures are measuring respondents' emotions (feelings) about the organisation.

After a *belief* is formed, an *attitude* (an evaluation, predisposition or judgement) is triggered, both of which prompt *intentions* to act, which cause *behaviours* (Fishbein & Ajzen, 1975). Clardy (2012) raised the question whether corporate reputation is a *belief* or an *attitude,* or both. According to him, scales asking for responses about the level of agreement with factual statements are measuring *beliefs*, while responses asking for evaluations or judgements are in fact measuring *attitudes.* He came to the conclusion that an instrument measuring corporate reputation should cover both *beliefs* and *attitudes.*

Fiske *et al.* (2006) and Fiske (2012) found that people judge other people in terms of liking ('warmth', 'trustworthiness') and respecting ('competence', 'efficiency'). Of these two dimensions, 'warmth' judgements are primary and carry more weight than 'competence'. Smaiziene and Jucevicius (2013) and Schwaiger (2004) concurred with this view and concluded that reputation has two components, namely an instrumental (economic, rational) part and a normative (or moral, constitutive) part. Against this background, Ponzi, Fombrun and Gardberg (2011) defined corporate reputation as an overall impression consisting of two dimensions – *emotional appeal* and *cognitive components of performance* (non-emotional items).

This idea of corporate reputation consisting of both rational and emotional dimensions is important for the development of the instrument in this study. The final measurement instrument developed constitutes a strong emotional dimension alongside a few cognitive dimensions, described in Chapter 7 and Chapter 8.

6.4.1.1   *Fortune's America's Most Admired Companies (AMAC) index*

Perhaps the oldest and best known of all the popular surveys in the field of reputation is *Fortune's* America's Most Admired Companies (AMAC) survey that was launched in 1983/84 (Hutton, 1986). Initially, the survey was confined to the United States, but in 1997, *Fortune* published its first Global Most Admired Companies (GMAC) survey. In 2014, this extensive survey was conducted among 3920 executives, directors and analysts, who ranked a total of 692 companies in 57 industries from 30 countries (*World's most admired companies*, 2014) according to nine key attributes: (1) *Financial soundness*, (2) *Long-term investment value,* (3) *Wise use of corporate assets*, (4) *Innovativeness*, (5) *Quality of management*, (6) *Quality of products and services*, (7) *Ability to attract, develop and keep talented people*, (8) *Acknowledgement of social responsibility*, and (9)

Effectiveness in doing business globally (Davies, 2011: 52). For the *Fortune* survey, an overall reputation score is calculated from the arithmetic mean of the attributes that respondents provide on the 11-point dimensions. Many of the earlier studies about corporate reputation relied on data from *Fortune* magazine's AMAC. (Gardberg, 2006; Lloyd, 2007; Stein, 2003).

The *Fortune* survey has been severely criticised over the years. The main points of criticism centre on representativeness (bias towards financially oriented 'experts'), financial bias (the instrument is predominantly constructed around the financials), and the theory and methodology. The criticism against the *Fortune* survey is summarised in Table 6.1 below.

Table 6.1: Criticism of the Fortune survey

Criticism
Representation   • The fact that the *Fortune* study is based on the perceptions of a restricted set of financially oriented stakeholders only (senior managers, directors and financial analysis) is seen by its critics as the most fundamental flaw.   • Because of the restricted sampling frame, the study is possibly biased. The perceptions of 'experts' may differ extensively from that of other stakeholders.   • A broader, more specific stakeholder perspective is lacking, especially among other important stakeholders such as employees and customers.   **Financial bias**   • The *Fortune* survey is predominantly financial in its construct domain.   • The focus is on financial and social equity rather than any other key components of corporate reputation.   • There is a 'financial halo effect' because four of the eight variables refer directly to performance.   • All but one of the items appear to be directly influenced by perceptions of financial potential.   **Theory and methodology**   • The selection criteria do not seem to be particularly robust.   • Reputational attributes do not seem to be operationally defined.   • It has no theoretical/conceptual rationale.   • Attributes are described in abstract general terms, leaving scope for the raters' personal interpretations.   • The averaging of a set of ranks is problematic, because a rank order is an ordinal scale, not a ratio or interval scale. Using ranked data in elaborate multivariate statistical analyses is seen as questionable.   • It is more of an evaluation of what a company has accomplished in its business sector, from the perspective of relevant sector members.   • The lagged effect of reputation on value creation and vice versa is not taken into account.   • The target firms seem to be selected by size of revenue.   • It claims to assess corporate reputation, but actually measures image.   • It relies on idiosyncratic attributes.   • It was not tested for validity and reliability.

Source: Summary compiled from Bennett & Kottasz, 2000; Davies, 2003; Fombrun et al., 2000; Fryxell and Wang, 1994; Larkin, 2003; Lloyd, 2007; Sabate & Puente, 2003; Sandberg, 2002; Shamma, 2012; Wartick, 2002.

6.4.1.2 Reputation Quotient (RQ)

The Reputation Quotient (RQ) was developed to measure the corporate reputations of large companies across different industries among various stakeholder groups (Fombrun *et al.*, 2000). The RQ is a well-known 'cross-national' instrument based on social expectations and the most widely used and cited instrument in the literature. It consists of six dimensions (pillars) and 20 items. Fombrun *et al.* (2000) defined two second-order dimensions: an emotional factor (one factor with three items) and rational factors (five factors, measured with 17 items). Table 6.2 lists the dimensions and attributes of the RQ.

Table 6.2: The Reputation Quotient (RQ)

Dimensions	Items
Emotional appeal	• I have a good feeling about the company • I admire and respect the company • I trust this company
Products and services	• Stands behind its products and services • Develops innovative products and services • Offers high-quality products and services • Offers products and services that are good value for money
Financial performance	• Has a strong record of profitability • Looks like a low-risk investment • Tends to outperform its competitors • Looks like a company with strong prospects for future growth
Vision and leadership	• Has excellent leadership • Has a clear vision for its future • Recognises and takes advantage of market opportunities
Workplace environment	• Is well managed • Looks like a good company to work for • Looks like a company that would have good employees
Social and environmental responsibility	• Supports good causes • Is an environmentally responsible company • Maintains high standards in terms of the way it treats people

Source: Fombrun *et al.,* 2000: 253; Gardberg and Fombrun, 2002: 306.

Researchers such as Wiedmann (2005), Puncheva-Michelotti and Michelotti (2010) and Chun (2005) raised questions about the RQ and pleaded for further development of meaningful reputation measures. The main points of criticism against the RQ centred on the dimensions of the RQ and on the scarcity of information provided about the source of the six pillars. Groenland (2002) criticised the lack of a rigorous conceptual definition. Others expressed their concern about the *Emotional appeal* dimension, which according to them, could be categorised under antecedents or consequences (Walsh & Beatty, 2007; Schwaiger *et al.*, 2009). One of the main sources of criticism, which is very important in the context of this study, was that the RQ was

lacking in its ability to measure corporate reputation from the viewpoint of individual stakeholder segments such as clients. The *Emotional appeal* dimensions that forms part of a number of instruments measuring reputation suggests an emotional bond with the organisation, that can be linked to having a good feeling about the organisation, and that can be described as 'approach behaviour' (Zeithaml *et al.*, 2009).

6.4.1.3 Reputation measurement originating from the RQ

Following the wide acceptance of the RQ, several subsequent instruments, emanating from the same stable, were based on the RQ, including the RepTrak™.

According to the RepTrak™ model, reputation is driven by seven rational dimensions, namely *Performance, Products and services, Innovation, Workplace, Governance, Citizenship* and *Leadership,* which are based on expectations that an organisation is able to fulfil certain roles. These rational dimensions explain the emotional bond (affect), summarised as *Trust, Admiration, Respect* and *Good feeling.* (*Global Reputation Pulse 2010,* 2010*; South Africa RepTrak™ Pulse 2013*, 2013). Table 6.3 summarises the dimensions of the RepTrak™ instrument.

Table 6.3: The RepTrak™ instrument

Dimensions	Indicators/Attributes (in question format)
Performance	• What is the financial performance of the company? • What are the future prospects?
Products/Services	• Do people think highly of the products/services? • Are the products/services associated with quality and value? • Does the company stand behind its products/services?
Leadership	• How do stakeholders perceive the leaders and management competencies of the company? • Does the company appear well organised? • Does the company have a clear vision for the future?
Innovation	• Is the company perceived as innovative to meet market changes? • Is the company perceived as skilled? • Does the company regularly introduce new products/services?
Citizenship	• Does the company contribute positively to the community in a socially and environmentally responsible fashion?
Workplace	• Are employees treated fairly? • Are employees paid a decent wage? • Does the company invest in developing employee skill sets and career opportunities?
Governance	• Is the company business run in a fair and transparent fashion? • Do stakeholders associate the company with high ethical business standards?

Source: Global Reputation Pulse 2010, 2010; South Africa RepTrak™ Pulse 2013, 2013.

Ponzi *et al.* (2011) validated the RepTrak™ scale in an effort to develop a simplified measure of reputation. The short-form RepTrak™ Pulse measure consists of three statements measuring emotional appeal and a fourth item measuring overall reputation. The RepTrak™ Pulse has been used with various stakeholders as respondents, across cultures and countries, and a multitude of industries. The latest RepTrak™ Pulse study in South Africa (*South Africa RepTrak™ Pulse 2013*, 2013) showed that an organisation's reputation in this country is mostly driven by two dimensions, namely *Products/Services* and *Innovation*. In comparison, *Citizenship, Governance* and *Workplace* were the most important dimensions in the world overall. Respondents in the world's 15 largest economies believed organisations are good citizens when they support good causes and protect the environment (Nielsen, 2012). However, it is risky to assume that this scale fits clients, because it has been developed for stakeholders in general.

In 2012, an effort was made to explore the inclusion of brand into an extended RepTrak™ model by including a number of items under the dimensions of *Corporate expressiveness* and *Corporate personality* (*RepTrak™ model evolution*, 2012).

6.4.1.4 Instruments that replicated and extended the RQ

Several researchers replicated the RQ instrument and assessed the validity of the RQ scale in different countries.

Walsh and Wiedmann's (2004) study was an extension of the RQ, done in Germany. They called for the measurement of antecedents (experience), consequences (intentions linked to the market assets and performance of the organisation), as well as additional dimensions which fall in the ambit of beliefs and attitudes about the attractiveness of organisations (Table 6.4), including four new German-specific dimensions, namely *Fairness, Sympathy, Transparency* and *Perceived customer orientation.*

Table 6.4: Walsh and Wiedmann's proposed model of corporate reputation

Antecedents	Corporate reputation dimensions	Consequences
• Age • Gender • Expectation • Experience • Involvement	• Emotional appeal • Vision and leadership • Social and environmental responsibility • Products and services • Workplace environment • Financial performance • Fairness • Transparency • Sympathy • Perceived customer orientation	• Loyalty • Trust • Word-of-mouth • Satisfaction

Source: Walsh & Wiedmann, 2004: 310.

Based on a qualitative study, Groenland (2002) found that the factor structure/dimensionality of the RQ was robust across various cultures, but that two new dimensions might have to be added for use in the Netherlands, namely *National origin* and *Charismatic representatives*.

Gardberg (2006) found support for the existing conceptualisations of corporate reputation and the RQ as a scale for its measurement, but argued that additional items in the scale could improve its cross-cultural validity, including items referring to transparency and open communication.

Worcester (2009) identified a set of attributes of reputation, which he called the 'pillars of resiliency'. These 'pillars' support reputation and make it more resilient. See Table 6.5 for Worcester's four pillars and the attributes grouped under the pillars.

Table 6.5: Worcester's reputational pillars

Pillars of reputation	Attributes
Product quality	- Having high-quality products and services - Being innovative - Making products that fit many needs and lifestyles - Living up to high standards for product safety
Environment	- Having environmentally sound business practices - Using water responsibly - Using energy responsibly - Supporting recycling - Helping communities gain access to clean water
Well-being	- Caring about the health and well-being of consumers - Promoting and advertising its products in a responsible way - Providing enough information for consumers to make informed choices about their products - Addressing obesity through its products and practices - Encouraging healthy and active lifestyles - Introducing new products that bring health and wellness benefits
Society	- Making a positive difference in this country - Being good for the local economy - Actively participating in communities where it does business - Competing fairly in the marketplace - Respecting workers' rights - Being a responsible member of society

Source: Worcester, 2009: 585.

Helm (2005) developed 'an alternative to the RQ' (see Table 6.6). According to Lloyd (2007), Helm's instrument was 'an alternative to the RQ', with similar dimensions.

Table 6.6: The dimensions of Helm's corporate reputation instrument

Dimensions
• Qualification of management • Financial performance • Corporate success • Customer orientation • Commitment to charitable and social causes • Commitment to the environment • Treatment of employees • Value for money of products • Credibility of advertising claims

Source: Helm, 2005: 103.

6.4.1.5 Other reputation instruments

Schwaiger (2004) treated corporate reputation as an attitudinal construct. His 'measurement model' distinguished between the cognitive dimension (the rational elements of high reputation), which he called *Competence,* and the affective dimension (to assess the emotional aspects), which he called *Likability.* Schwaiger (2004) investigated the 'drivers' (attributes) of reputation with his 'explanation model' to explore which dimensions were responsible for a company's reputation. The four 'drivers' were identified as *Quality*, *Performance*, R*esponsibility* and *Attractiveness*. Table 6.7 shows Schwaiger's model. Wilczynski *et al.* (2009) demonstrated that, in comparison with other approaches (AMAC, RQ, etc.), Schwaiger's (2004) approach exhibited the highest degree of criterion validity.

Table 6.7: Schwaiger's measurement model for corporate reputation

Measurement construct	Sympathy (affective dimension) Competence (cognitive dimension)
Indices of attributes that drive Sympathy	Quality Responsibility Attractiveness
Indices of attributes that drive Competence	Quality Performance Attractiveness

Source: Schwaiger, 2004: 64-67.

The study of Shamma and Hassan (2009) resulted in a scale that measures the antecedents (knowledge), attributes (attitudes) and consequences (behavioural outcomes) of corporate reputation with all stakeholders. The dimensions are shown in Table 6.8.

Table 6.8: Shamma and Hassan's reputation measurement model

Antecedents	• Experience with company • Knowledge obtained from other people • Knowledge obtained from media
Attributes (attitude dimensions)	• Emotional appeal • Products and services • Vision and leadership • Social and environmental responsibility • Workplace environment • Financial performance
Consequences	• Positive word-of-mouth • Intention to invest • Intention to seek employment • Intention to purchase products and services • Stakeholder loyalty to organisation • Stakeholder commitment to organisation

Source: Shamma and Hassan, 2009: 331.

Caruana and Chircop (2000) developed a one-dimensional instrument with 12 items to measure the perception (reputation) of a company.

Walker (2010) investigated a sample of 54 well-cited articles and one book on corporate reputation measurement and came to the conclusion that theory development was needed and that corporate reputation should be investigated from a specific stakeholder group's point of view.

6.4.2   Reputation measurements based on corporate character attributes

An alternative approach to measuring corporate reputation distinguishes between organisations on the basis of stakeholders' perceptions of corporate personality traits (Larkin, 2003; Slaughter, Zickar, Highhouse & Mohr, 2004). Davies *et al.* (2001) and Davies (2013) proposed the use of a personification metaphor such as the personality framework of Aaker (1996) to assess corporate reputation. The Corporate Character Scale developed by Davies *et al.* (2004) is the best-known example of the brand personality approach to measure reputation, although Geuens, Weijters and De Wolf (2009) identified 15 existing brand personality scales. The rationale behind the Corporate Character Scale is that people and companies both have reputations and that personality traits can be used to explain aspects of behaviour that are applicable to both individuals and companies. It is not a direct measure of reputation, but a projective technique or an indirect measure (Berens & Van Riel, 2004; Davies, 2011; Davies, 2013). This scale assesses both sets of attitudes of reputation, namely internal employee attitudes (identity) and external customer attitudes (image). The Corporate Character Scale comprises 49 personality-type adjectives representing seven dimensions (Table 6.9). The seven dimensions are *Agreeableness, Enterprise*, *Competence, Chic, Ruthlessness, Informality* and *Machismo.*

Table 6.9: The Corporate Character Scale

Agreeable-ness	Enterprise	Competence	Chic	Ruthless-ness	Informality	Machismo
Cheerful Pleasant Open Straight-forward Concerned Reassuring Supportive Agreeable Honest Sincere Trustworthy Socially responsible	Cool Trendy Young Imaginative Up-to-date Exciting Innovative Extravert Daring	Reliable Secure Hard-working Ambitious Achieve-ment-oriented Leading Technical Corporate	Charming Stylish Elegant Prestigious Exclusive Refined Snobby Elitist	Arrogant Aggressive Selfish Inward-looking Authorita-rian Controlling	Casual Simple Easy-going	Masculine Tough Rugged

Source: Davies *et al.*, 2004: 136.

Slaughter *et al.* (2004) also used various personality instruments to develop a list of adjectives, which were reduced to 33 items after empirical testing.

6.4.3 Measurements of antecedents and outcomes of reputation

Several studies investigated the inputs (antecedents) leading to a reputation or/and the outcomes (consequences) of a favourable or unfavourable reputation.

MacMillan *et al.* (2000) proposed a Model of Business Relationships, which was later used by MacMillan *et al.* (2005) to define reputation in terms of the perceived experience of stakeholders and their emotions, while the consequences of reputation were defined as the behavioural support of stakeholders towards the company. These researchers argued that perceptions are rooted in relationships, which run like a golden causal thread from the experience of stakeholders (antecedents), which result in perceptions of reputation (dimensions) through to the behavioural intentions of stakeholders (consequences). The Model of Business Relationships is shown in Table 6.10 below.

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Table 6.10: A simplified version of the Model of Business Relationships

Reputation in relationships		Consequences of reputation
Drivers of business relationships	**The nature of relationships**	**Outcomes of relationships**
Stakeholder perceptions of experiences of business behaviour	**Stakeholder commitment and trust**	**Stakeholder-intended behaviours towards a business**
- Material and non-material benefits - Coercive power - Termination costs - Shared values - Equity of exchange - Communication - Past trust-related behaviours of the business	- Commitment - Trust	- Creative cooperation - Stakeholder loyalty - Stakeholder compliance - Future trust-related behaviours of stakeholders

Source: MacMillan *et al.*, 2005: 220.

MacMillan *et al.* (2004) developed the SPIRIT model (Stakeholder Performance Indicator Relationship Improvement Tool) to analyse an organisation's relationships with its key stakeholders. The authors argued that reputation is based on the relationships with the organisation's key stakeholders. This model is thus concerned with an understanding of stakeholders' views (perceptions) of a business, which depend on stakeholder experiences, and which will result in their intended future behaviours (Larkin, 2003). The SPIRIT model of MacMillan *et al.* (2004) provided measures in four areas: 1) stakeholder experience (antecedents) on a strategic level; 2) stakeholder experience of outside influences (antecedents) on a strategic level as asset-generating activities; 3) stakeholder emotional support, including trust and emotional commitment, positive and negative emotions of stakeholders (attitudes) on a strategic level; 4) stakeholder intentions and behavioural support (consequences) as indicators of the market value of an organisation. The SPIRIT model is shown in Table 6.11 below.

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Table 6.11: The SPIRIT model

Drivers of relationships (antecedents)	Outcomes of relationships (consequences)
Stakeholder experiences of a business's behaviour • Service benefits • Non-material benefits and shared values • Material benefits • Listening and informing (communication) • Keeping commitments • Coercion • Termination costs	Stakeholder behavioural support towards a company • Subversion • Advocacy • Cooperation • Extension • Retention
Stakeholder experience of outside influences • Outside influences (what the media and pressure groups say about a business)	Stakeholder emotional support towards a company • Trust • Emotions • Emotional commitment

Source: MacMillan *et al*., 2004: 28, 31.

6.4.4 Mixed and combined reputation measurement approaches

Some researchers used two or more approaches – some of which are described in the sections above – in an effort to form a clearer picture of corporate reputation in organisations.

Dowling (2004b) developed a mixed measurement instrument – the Model of Corporate Reputation (see Figure 6.3) – in which he combined a corporate personality descriptor, similar to the Corporate Character Scale (§6.4.2), together with descriptive/attitudinal items similar to the dimensions and items of the RQ instrument (§6.4.1.2), and the instruments of Helm (2005) and Schwaiger (2004) (§6.4.1.4). With his Model/Measurement of Corporate Reputation (Figure 6.3 and Table 6.12), Dowling (2004b) measured corporate reputation from the perspective of journalists. He concluded that it was important to measure the relationship between the stakeholders evaluating the organisation and their perception of the company's reputation.

Corporate descriptors/drivers		Reputation descriptors
Market presence	Stakeholder perceptions	**Admiration**
Corporate capabilities and performance		**Respect**
Social accountability		**Trust**
Corporate personality		**Confidence**
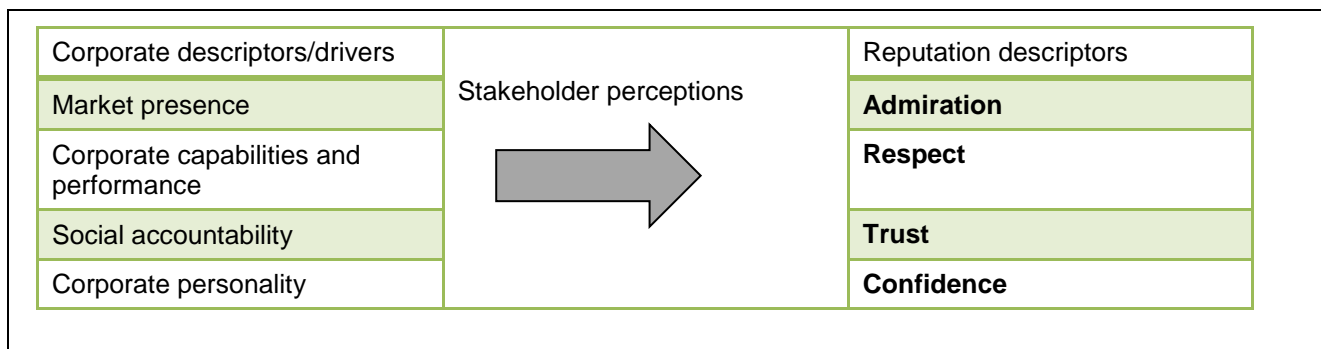
Figure 6.1: Dowling's model of corporate reputation

Source: Dowling, 2004b: 199; Lloyd, 2007: 61.

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Table 6.12: Dowling's measurement of corporate reputation ('corporate descriptors')

Attributes	Items
Social accountability	Ethical Fair and honest Good community citizen Genuine
Corporate capability	Strong leadership Quality / reliable products and services Innovative Well managed Strong financial performance Low-risk investment Winning strategy Good growth prospects
Media relations	Ready access to senior managers Open dealings with journalists Supportive of journalists' needs
Market presence	Well known, familiar Know what they stand for Leader in its field Powerful presence in the marketplace
Personality	Exciting Arrogant Interesting Well liked Very Australian Warm and friendly
Corporate reputation	Believe the company / trustworthy Admired and respected Confident about future actions

Source: Dowling, 2004b: 203; Lloyd, 2007: 62.

Lloyd (2007) followed an approach that is neither limited to attributes based on expectations nor to corporate personality. A measurement tool was developed to measure corporate reputation that reflected the differences in perceptions of various stakeholder groups (see Table 6.13). Unlike the majority of reputation studies that emphasise the importance of the measurement of corporate reputation across all stakeholder groups, the study of Lloyd emphasised a strong stakeholder segmentation perspective. The study revealed statistically significant differences in the way stakeholder segments ranked the nine components of reputation in terms of the importance of their contribution to the corporate reputation of a company (Lloyd, 2007). The components of corporate reputation, which are of greatest importance to each stakeholder group, are set out in Table 6.13 below.

Table 6.13: Lloyd's key components of corporate reputation for each stakeholder group

Employees	CEOs	Investment & finance specialists	Media	Consumers	Communica-tion specialists
Ethical management and leadership	Ethical management and leadership	Performance	Performance	Products and services	Performance
Products and services	Products and services	Identity	Ethical management and leadership	Ethical management and leadership	Ethical management and leadership
Performance	Performance	Ethical management and leadership	Image	Performance	Products and services
Corporate leadership	Corporate leadership	Management leadership	Identity	Identity	Identity
Identity	Identity	Image	Management leadership	Management leadership	Image
Management leadership			Products and services		Management leadership
					Financial performance
					Corporate leadership
					Corporate brand

Source: Lloyd, 2007: 148.

6.5   CLIENT-BASED CORPORATE REPUTATION MEASUREMENT

The focus of this study is to investigate corporate reputation from a client (customer) perspective. Therefore, client-related dimensions such as *Customer expectations*, *Customer loyalty, Customer satisfaction, Perceived service quality* and *Customer orientation* are important and need to be investigated further.

6.5.1   Scales based on clients' perceptions of the attributes of corporate reputation

A number of researchers emphasised that the way in which the attributes that constitute the reputation of an organisation is perceived and evaluated will vary along the different stakeholder groups (Bromley, 2002). Walker (2010) suggested that it is important to first describe the stakeholder group when developing a measurement instrument. Clardy (2012) warned that corporate reputation should be understood as a web of interpretations, attributes, characteristics and assessments before it can be accurately measured.

Proper attempts to operationalise the concept *corporate reputation*, to identify its underlying dimensions in the context of a service organisation and from the perspectives of clients only, and

to develop a measuring instrument with psychometric properties beyond reproach have been limited.

As mentioned in §6.4.4, Lloyd (2007) developed a reputation measurement tool that reflected the differences in perceptions of various stakeholder groups. In Lloyd's study (2007), *Performance* proved to an important dimension of corporate reputation among consumers (clients). A significant finding was that different groupings evaluated organisations differently and that separate scales should therefore be used. Walker (2010) also warned against the assumption of homogeneity among stakeholder groups. Lloyd identified five dimensions that seem to be important from the perspective of consumers (clients), namely *Quality of products and services*, *Ethical management and leadership*, *Performance, Identity* and *Leadership by management* (see Table 6.13). Lloyd (2011) demonstrated that the reputation evaluations of stakeholder groups differ after developing scales for six stakeholder groups.

From the studies of MacMillan *et al.* (2004; 2005) it became clear that to improve emotional commitment in clients (customers), the business must increase *Non-material benefits*, demonstrate *Shared values*, and employ *Friendly and knowledgeable staff*. The two drivers of *Customer extension* (the intention of customers to buy 'new' products above and beyond those that they already do) are *Increased listening to changing needs of customers* and *Communicating opportunities for extension*, and *Material benefits* in the form of financial incentives or discount. (See the SPIRIT model in Table 6.11).

Brown and Dacin (1997) investigated whether what clients know about a company (corporate associations) influence their perceptions and evaluations of the company's products. They identified two types of corporate associations, namely *Corporate ability* and *Corporate social responsibility*.

Walsh and Beatty (2007) tried to address the gap that existed, namely to develop an instrument to measure client-based corporate reputation in services, with a study based on the earlier work of Fombrun *et al.* (2000) with the RQ. The outcome was a 31-item instrument (CBR) capturing five dimensions of what they believe should constitute the corporate reputation of a service organisation: *Client orientation, Reliability and financial strength, Product and service quality, Social and environmental responsibility* and *Employer relations.*

Boshoff (2009) subjected the instrument of Walsh and Beatty (2007) to psychometric testing and reached the conclusion that the results reported in developing this instrument to measure corporate reputation among customers was a 'cause for concern'. A closer look at the results reported by Walsh and Beatty (2007), and particularly the fit indices of their confirmatory factor analysis model, suggested that their model had certain limitations. According to Boshoff (2009), the operationalisation, as well as the wording of the items of the original 31-item instrument, was flawed. The non-assessment of unidimensionality and an incorrect estimation method used in the

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structural equation analysis were specifically mentioned. The final CBR instrument comprised 28 items to increase model fit.

In a later study, Walsh, Beatty and Shiu (2009) developed a shortened version of the CBR with 15 items, which they used in the UK and Germany. They reported that the shortened scale maintained the dimensional properties of the full 28-item scale, while possessing sound psychometric properties across diverse contexts. This scale thus extended Walsh and Beatty's (2007) scale into other cultures and contexts (see Table 6.14 for a comparison of the original 31-item CRB scale of Walsh and Beatty, 2007, and the 15-item scale of Walsh, Beatty and Shiu, 2009). The overlapping items are indicated in ❖ and **bold.**

Table 6.14: The customer-based corporate reputation scales of Walsh and Beatty, and Walsh, Beatty and Shiu

Factors	Items
Customer orientation	❖ **Has employees who are concerned about customer needs** ❖ **Has employees who treat customers courteously** ❖ **Is concerned about its customers** ❖ **Treats its customers fairly** • Takes customer rights seriously • Seems to care about all of its customers regardless of how much money they spend with the company
Good employer	❖ **Looks like a good company to work for** ❖ **Seems to treat its people well** ❖ **Seems to have excellent leadership** • Has management who seems to pay attention to the needs of its employees • Seems to have good employees • Seems to maintain high standards in the way that it treats people • Seems to be well-managed
Reliable and financially strong company	❖ **Tends to outperform competitors** ❖ **Seems to recognise and take advantage of market opportunities** ❖ **Looks like it has strong prospects for future growth** • Looks like it would be a good investment • Appears to make financially sound decisions • Has a strong record of profitability • Is doing well financially • Seems to have a clear vision of its future • Appears to be aware of its responsibility to society
Product and service quality	❖ **Offers high-quality products and services** ❖ **Is a strong, reliable company** • Stands behind the services that it offers ❖ **Develops innovative services** • Offers services that are a good value for the money

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Factors	Items
Social and environmental responsibility	❖ **Seems to make an effort to create new jobs** ❖ **Would reduce its profits to ensure a clean environment** • Seems to be environmentally responsible • Appears to support good causes

❖ Indicates items that appear in both the 31-item (Walsh & beaty, 2007) and the 15-item scale (Walsh, Beatty & Shiu, 2009).

Source: Walsh and Beatty, 2007: 135; Walsh, Beatty and Shiu, 2009: 927.

When Walsh, Beatty and Shiu (2009) replicated the study by using a shorter version of the scale, the deficiencies of the original scale (Walsh & Beatty, 2007) remained. After closer inspection, it became evident that the *Client orientation* factor contained two items that are worded in almost exactly the same way. These are: 'XYZ has employees who are concerned about customer needs' and 'XYZ is concerned about its customers'. Given this overlap (and the resultant item redundancy), it is not surprising that this dimension returned a Cronbach's Alpha of 0.84.

Walsh, Beatty and Shiu's (2009) factor three – called *Reliable and financially strong company* – remained problematic. From a conceptual point of view, it is difficult to reconcile the concepts of 'reliable company' and 'financially strong company' from a unidimensional perspective. In addition, one of the items measuring this factor is an example of a double-barrelled question: 'XYZ seems to recognise *and* take advantage of market opportunities'. This item could have been a potential source of response error.

The operationalisation of Walsh, Beatty and Shiu's (2009) factor four, named *Product and service quality*, can also be questioned. If the scale was developed to measure the reputation of a *service* organisation, the reference to 'product quality' is suspect. The reference to a product that makes up part of a bank's service is unfortunate. It is thus not surprising that the item 'XYZ offers high-quality products and services' correlated poorly with the other items measuring this dimension (Walsh, Beatty & Shiu). As expected and acknowledged by Walsh, Beatty and Shiu (2009), this poor item also contributed to the low average variance extracted (AVE) in their retail sample and in the fast food sample.

Factor five (*Social and environmental responsibility*) also contains an item of dubious quality. Respondents were asked to respond to the statement, 'XYZ would reduce its profits to ensure a clean environment'. One can argue that ordinary customers would be unable to answer a question of this nature simply because of their lack of access to managerial thinking and insight. It is thus not surprising that this item correlates poorly with the other items measuring this factor (ranging from 0.64 to 0.66).

During its development and validation, Walsh, Beatty and Shiu (2009) reported, among others, fit indices that can be described as precarious. In fact, when trying to validate their scale using a

validation sample, the instrument performed worse than expected, and a further three items had to be deleted to achieve a barely acceptable fit. This manoeuvring raises serious concerns about the construct validity and the dimensionality of the instrument they proposed.

The study of Puncheva-Michelotti and Michelotti (2010) confirmed that stakeholders' perceptions are based on a set of relatively uniform dimensions, but found that differences do exist between stakeholder groups, and differences also occur when groups consider different relationship decisions such as purchasing decisions (in the case of customers). They identified eight dimensions that are relevant to customers (those who take purchasing decisions), namely *Management excellence*, *Social responsibility*, *Customer value*, *Economic performance, Patriotic appeal, Consumer impact, Emotional appeal* and *Credibility* (Puncheva-Michelotti & Michelotti, 2010: 266).

Several others made attempts to measure corporate reputation from the perspective of clients. The study of Rindova *et al.* (2005) in the context of American business schools identified two dimensions of reputation, namely *Stakeholders' perceptions of an organisation as able to produce quality goods* and *Organisations' prominence in the minds of stakeholders.* Yoon *et al.* (1993), who developed a one-dimensional construct with ten items, found that *Consistent high quality* is likely to be very important and *Financial performance* less important to corporate customers. Chetthamrongchai (2010) demonstrated that the factor structures of two commonly used measures – the Reputation Quotient and the Corporate Character Scale – were valid among customers in Thailand. Şatir's study (2006) among hospital patients showed that the *Trust* and *Service quality* dimensions reflect reputation more significantly and strongly than the *Communication* and *Social responsibility* dimensions.

6.5.2 Client-based scales that measure inputs and outcomes

Although this study does not attempt to include inputs (antecedents) and outcomes (consequences) of client-based corporate reputation in the proposed final measurement instrument, note was taken of input-based and outcomes-based scales of reputation from a client (customer) perspective.

Schwaiger *et al.* (2011) used the model of Eberl (2006) to research the effect of reputation on customer behaviour. They discovered that *Competence* and *Likeability* have a direct impact on *Attitude towards the product* as well as an indirect impact, mostly via *Perception of product attributes*. Reputation served as information surrogate in the customer decision. It became clear from this study that the affective reputation dimension (*Likeability*) had more influence than the cognitive dimension (*Competency*). The higher the product involvement and hence the degree of cognitive information processing, the lower the impact of reputation on the attitude towards the product will be.

As part of their study, Walsh and Beatty (2007) examined their scale's relationship with key customer-outcome variables, namely *Customer satisfaction, Loyalty, Trust* and *Word of mouth*. Three of the reputation dimensions – *Product and service quality, Good employer* and *Customer orientation* – were strongly associated with the four outcome variables (*Customer satisfaction, Loyalty, Trust* and *Word-of-mouth*). Walsh, Beatty and Shiu (2009) extended previous work to examine customer-related antecedents and consequences of corporate reputation for customers in a service sector. Their conclusion was that customer-based corporate reputation is positively correlated with important customer antecedent and outcome variables. Their study showed that both *Customer satisfaction* and *Trust* have an impact on corporate reputation ('strong predictors' or antecedents), while *Customer loyalty* and *Word-of-mouth* were identified as consequences of corporate reputation (reputation was proved to be a 'significant predictor'). By regressing the five corporate reputation dimensions (*Customer orientation, Good employer, Reliable and financially strong company, Product and service quality,* and *Social and environmental responsibility*) on *Customer loyalty* and *Word-of-mouth*, they found that three of the five dimensions (*Customer orientation, Reliable and financially strong company*, and *Product and service quality*) are significantly related to *Customer loyalty*, while four of the five dimensions (all but *Social and environmental responsibility*) are related to *Word-of-mouth*.

The research of Walsh *et al.* (2006) focused on clients in the service industry. They found a strong relationship between corporate reputation and *Customer satisfaction*. The impact of *Customer satisfaction* on customers' *Intention to switch* to other service providers was confirmed.

6.6   TOWARDS AN INTEGRATED FRAMEWORK FOR REPUTATION MEASUREMENT

The latest research on corporate reputation shows an integrated approach to the measurement and development of models or frameworks.

Money and Hillenbrand (2006a; 2006b) proposed a theoretical framework that integrates the concept of corporate reputation on various levels and in different contexts:

i)   Reputation on the *strategic* level (as a key intangible strategic asset that provides a competitive advantage) (see also Wiedmann & Prauschke, 2005), which emphasises the focus that is placed on corporate reputation as a strategic asset.

ii)   Reputation in the context of its *antecedents* (the origins) and *consequences* (the value of reputation), which places reputation in a *causal framework* (see also Walsh & Wiedmann, 2004).

iii) Reputation on the *perceptual* level, which pertains to reputation as a perception, cognition and the actions of individuals.

Antecedents at a strategic level can be described as the 'asset-generating activities' of the organisation. Several studies have conceptualised corporate reputation as a key intangible (*strategic*) asset. In the case of *consequences,* reputation is understood as market assets, which

eventually improve the performance of the organisation and thus create value, which is often seen as the key purpose of a company (see also discussions by MacMillan *et al.*, 2004; Money & Hillenbrand, 2006a, 2006b).

Because beliefs, attitudes, intentions and behaviours have been placed in causal frameworks before (Fishbein & Ajzen, 1975; Caruana *et al.,* 2006), Money and Hillenbrand (2006a, 2006b) used the conceptual chain of experiences, beliefs, attitudes, intentions and behaviours to integrate the perceptual perspective of corporate reputation into their model. On the basis of observation, experiences and information from external sources as well as internal inference processes, lead to beliefs about and attitudes towards objects (such as organisations). Attitudes lead to people's intentions (intentions to buy) and eventually to behaviour (eventual transactions). Money and Hillenbrand (2006a; 2006b) integrated the strategic framework with the perceptual framework to create a corporate reputation causal framework of value creation (see Table 6.15), focusing on three aspects: corporate reputation dimensions (perception), its antecedents and its consequences.

Table 6.15: Money and Hillenbrand's corporate reputation causal framework of value creation (adapted)

	Antecedents ⟶	Corporate reputation ⟶	Consequences
Strategic level	Activities that generate assets	Intangible assets	Market assets / Performance
Perceptual level	Observations Experiences Information	Beliefs Attitudes	Intentions Behaviours

Source: Money & Hillenbrand, 2006a: 7; 2006b: 5.

Vidaver-Cohen (2007) differentiated between objective reputation *predictors* or *antecedents* (related to *quality dimensions*) and subjective *perceptual outcomes* in the form of *assessments* (in the context of business schools). The *predictors* are similar to the rational performance indicators (*beliefs*) of the RepTrak™ model. *Assessments* are conceptualised as trust, admiration/respect, good feelings and overall public esteem. These are similar to *attitudes* described in the Money and Hillenbrand (2006b) model. Stakeholder expectations mediate the relationship between the *quality dimensions* and the reputation *assessments*, which is a function of the degree to which these stakeholders perceive the organisation's practices and behaviour as meeting their unique expectations.

Money and Hillenbrand (2006a, 2006b) extended this thinking by categorising existing research in the field of corporate reputation measurement into an integrated model (see Table 6.16). Fombrun's Reputation Quotient (RQ) (Fombrun *et al.*, 2000) provided information about the strategic intangible assets as well as the current reputation beliefs and attitudes held by stakeholders on a perceptual level. Beliefs and attitudes serve as proxies for the intangible assets.

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Caruana *et al.* (2006) concurred with this view and argued that a belief-based measure represents an indirect measure of corporate reputation, while an attitude-based measure represents a direct measure. The Corporate Character Scale of Davies (Davies *et al.*, 2001; Davies & Chun, 2002; Davies *et al.*, 2004) measures the personality of an organisation, also providing information about the intangible assets at a strategic level and beliefs of stakeholders on a perceptual level. Also included in this scale are measures of satisfaction and commitment, which deal with reputation and some of its consequences.

Table 6.16: Money's categorisation of existing reputation measurement models (adopted)

	Antecedents ⟶		Corporate reputation ⟶		Consequences	
Strategic level	Asset-generating activities		Intangible assets		Market assets / Performance	
Fombrun, 1996 **Reputation Quotient (RQ)**			Vision & leadership Financial performance Social responsibility Products & services Workplace environment	Emotional appeal		
Davies *et al.*, 2004 **Corporate Character Scale**			Attributes of the personality of an organisation	Link to measures of satisfaction	Link to measures of commitment	
Berens & Van Riel, 2004 **Streams of thought in reputation literature**		Activities associated with the development of trust (implied)	Judgements in terms of social expectations Personality metaphor	Trust		
Walsh & Wiedmann, 2004 **Extensions of the RQ in Germany**		Suggested the development of scales to measure stakeholder experience and involvement	Suggested the development of scales to measure sympathy, transparency, fairness and perceived customer orientation in addition to RQ concepts	Suggested the development of scales to measure trust and satisfaction	Suggested the development of scales to measure loyalty and word-of-mouth	
MacMillan *et al.*, 2004 **SPIRIT**	Outside influences (what the media and pressure groups say)	Communication, service benefits, non-material benefits, material benefits, shared values, keeping commitments, coercion, and termination costs		Trust Emotional commitment Level of positive and negative emotions	Advocacy Cooperation Extension Retention Subversion	
Perceptual level	Observation	Experience	Beliefs	Attitudes	Intentions	Behaviours

Source: Money & Hillenbrand, 2006a: 9; 2006b: 6.

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6.7   CONCLUSION

In this chapter, the importance of measuring corporate reputation was discussed. The major issues and challenges regarding the measurement of corporate reputation were highlighted, namely definition and construct confusion, the lack of theory development and measurement, as well as questions regarding construct validity and the question whether there is one (aggregated) reputation or separate reputations according to the different stakeholders.

The main approaches to the measurement of corporate reputation were investigated. These include measurements based on beliefs and attitudes about the attractiveness of the attributes of an organisation, measurements based on corporate character, measurements of the antecedents and consequences, mixed and combined approaches, integrated measurements and frameworks, and client-based measurement of corporate reputation.

It became clear from previous research that the emotional dimension of corporate reputation features strongly in almost all measurements. The question was asked whether corporate reputation is primarily an emotional concept or whether it can be explained with rational dimensions, or both (Groenland, 2002).

Researchers made the point that future research needs to focus strongly on the construct validity of instruments measuring corporate reputation and that the dimensions of corporate reputation need refinement (Barnett & Pollock, 2012).

From studying the literature on client-based corporate reputation, the conclusion can be drawn that little work has been done on the measurement of corporate reputation from the viewpoint of a very important stakeholder group, namely clients, and in the context of the service industry. It is on this gap that this study will focus (see Figure 6.4).

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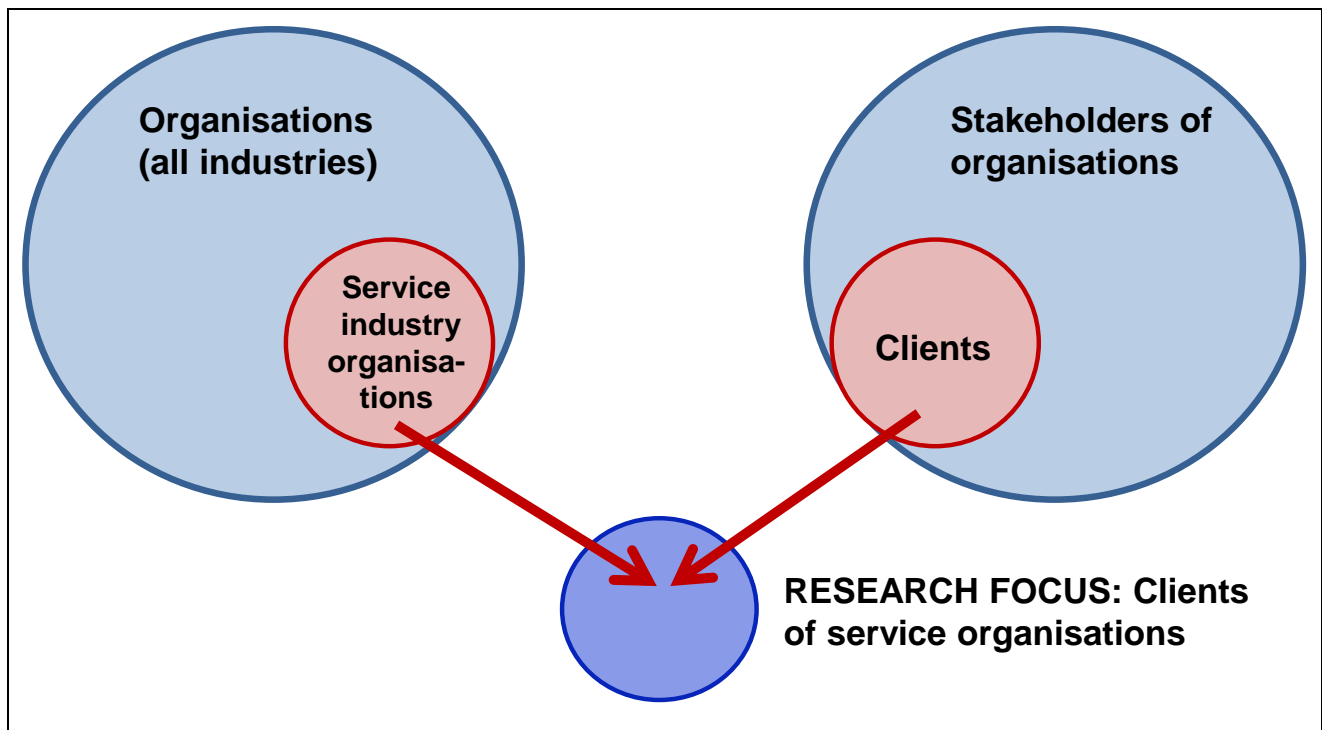
Figure 6.2: Focus on the present study

A psychometrically sound measuring instrument still does not exist to measure client-based corporate reputation. Research is also lacking in the context of the service industry. This study, in which a new measurement instrument was developed, attempted to address these limitations.

In Chapter 7, explanations of the research paradigm and approach, research methods and research context (domain) of the present study are provided. This is followed by descriptions of the unit of analysis and data sources. An explanation of the processes to develop a new instrument to measure client-based corporate reputation in the service industry is provided. The generation of an initial pool of items is described, followed by the steps to refine the draft instrument by involving a panel of experts and administering a pre-test to ensure clarity of meaning of the cover letter and the questionnaire. The scope and delimitations of the study are explained. Operational definitions of the main construct (corporate reputation) and the dimensions are provided.

The study population and sampling are explained and justified, as well the administering of the surveys. A description of the data collection and analyses and the processes to refine, purify and replicate the measurement instrument during three waves are also provided. The statistical analyses performed in each of the three waves to ensure construct validity are explained.

CHAPTER 7

RESEARCH METHODOLOGY

'The way to gain a good reputation is to endeavour to be what you desire to appear.'

- Socrates

7.1   INTRODUCTION

In the previous chapter, various instruments proposing to measure corporate reputation were discussed. The measurement of corporate reputation from the perspective of all stakeholders and organisations in all industries received attention. Greater emphasis was placed on instruments pertaining to the measurement of corporate reputation from the perspective of clients and in the context of the service industry. Where appropriate, the limitations of such instruments were pointed out.

In Chapter 1, the primary purpose of this study was presented, namely to develop a new instrument to measure corporate reputation from the perspective of clients of organisations in the service industry – using banks and airlines as examples of service industry organisations – by investigating and empirically testing the validity of dimensions (factors) that constitute the attributes of a client-based corporate reputation of an organisation functioning in services. The purpose of this chapter is to describe the research methodology used for this positivistic research study in pursuit of the primary research purpose.

In this chapter, the research paradigm and research approach are discussed, and the research methods and research context are explained. This is followed by an exposition of the unit of analysis and the primary and secondary data sources utilised. A step-by-step description of the process to develop a new instrument to measure client-based corporate reputation in services, starting with a presentation of the process to generate the item pool, is provided. This is followed by a description of the phase in which the draft instrument was refined by a panel of experts. An explanation of the pre-test undertaken to ensure that the wording of both the cover letter and the questionnaire was clear and that the online survey worked appropriately, as well as the delimitations of the current study, are provided. After discussing the origins of the dimensions of the main construct of corporate reputation as extracted from the literature and the focus group discussion, emphasis is placed on the operational definition of the main construct (corporate reputation) as well as the operational definitions of each dimension. The frames that were selected to represent the study population are explained and justified, as well as the administering of the survey in three waves of data collection. The processes of data collection and statistical analyses to refine, purify and replicate the measurement instrument are explained.

The statistical analyses performed in each of the three waves to ensure construct validity are described. According to Peter (1981), construct validity is demonstrated when the following are

explained: convergent validity, reliability, discriminant validity, nomological validity, face validity and model fit. See a detailed discussion of the various elements of construct validity, reliability, invariance and model fit in §5.4.1 and §5.4.2.

7.2   RESEARCH PARADIGM AND RESEARCH APPROACH

This study was done in the positivistic tradition, involving quantitative and objectivist methods, is followed (Saunders, Lewis & Thornhill, 2003). According to Collis and Hussey (2003) and Galliers (1991), a *research paradigm* refers to the process of research practice based on the researcher's philosophies and assumptions about the world and the nature of knowledge.

This study pursued a 'new truth' about client-based corporate reputation in the service industry. In this type of positivistic study, dealing with human behaviour and social sciences (marketing research), analyses are carried out in a rigorous manner, though specific to the social environment. In this instance, the construct of client-based corporate reputation in services was quantified.

7.3   RESEARCH METHODS

Qualitative and *quantitative* research methods (Blumberg *et al.,* 2005; Leedy & Ormrod, 2005) were both used in this study, although the study was predominantly of a quantitative nature. This predominantly *quantitative approach* was regarded the most appropriate to address the research problem of identifying the relevant dimensions that clients consider when evaluating service organisations in order to assess their 'corporate reputation scores'. Quantitative research was preferred, because a systematic empirical investigation of the dimensions of the construct of corporate reputation with statistical data was required. Quantitative research is widely used in social sciences such as marketing (Leedy & Ormrod, 2005).

In the first part of the study a *qualitative method* – a focus group – was used to identify new patterns of thinking of clients to assess the corporate reputation of organisations in the service industry. The focus group was utilised to answer questions about the complex nature of the construct of client-based corporate reputation, with the purpose of describing and understanding this phenomenon from the participant's point of view (Leedy & Ormrod, 2005). Interpretive techniques were used that attempted to describe, decode, translate and come to terms with the meaning – not the frequency – of the construct of corporate reputation of a service organisation (Cooper & Schindler, 2006).

Quantitative research is widely regarded as being objective as it focuses on the facts of social phenomena (Lancaster, 2005). In this study, a large-scale survey – a *quantitative research method* – was utilised as the primary approach to address the problem statement. Three surveys, undertaken in three waves (rounds), using large samples of the target population (clients of large service organisations in South Africa), were administered (Collis & Hussey, 2003). The researcher realised that one round of data collection and analysis would not suffice in the light of the research

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objective, namely to develop a new instrument. When a new instrument is developed, it is recommended that more than one sample is used (DeVellis, 2003). When new dimensions emerge or the items change during the development process, new data sets need to be used (Hair *et al.,* 2010). The study entailed the collection of data and the use of statistical analyses to address the objective of the study, namely the development of an instrument to measure client-based corporate reputation.

7.4   RESEARCH CONTEXT (DOMAIN)

The economy of South Africa, as is the case in the rest of the world, is becoming more and more service-oriented. The service industry is growing globally (Buera & Kaboski, 2009), at the expense of agriculture, mining and manufacturing, which are becoming proportionally smaller as time passes (Potts & Mandeville, 2007).

Two sectors, the retail banking sector and the airline sector, were selected because they are typical examples of service organisations (Potts & Mandeville, 2007). A second reason for choosing these two sectors was that the large organisations operating in the two sectors in the service industry are well known by their clients and the services they sell are used by their clients on a regular basis. The two service sectors and the large organisations functioning in these sectors in South Africa that were included in the surveys in this study, are shown in Table 7.1

Of the five large banks in South Africa, Absa was the market leader in 2013, with a market share of 32.9%, followed by FNB with 25.2%, Standard Bank with 23.9%, Capitec Bank with 10.8% and Nedbank with 10.7% (*Biggest SA banks shock*, 2013).

At the time of the field work done for this study, four domestic airlines were operational in South Africa. It was decided to also include 1Time, after this airline had just become defunct one week prior to the commencement of the field work and was well known by South Africans. SAA and British Airways were regarded as 'full-cost carriers', while Mango, Kulula and 1Time were 'low-cost carriers' (Luke & Walters, 2013). In 2013, SAA had the largest market share in the domestic airline market (45%), followed by Kulula (25%), Mango (15%) and British Airways (15%) (*South Africa's Mango, the often forgotten budget airline subsidiary, starts to pursue faster growth*, 2013).

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Table 7.1: Service sectors and organisations included in the survey

Service sector	Organisations
Airline sector	• South African Airlines (SAA) • Kulula • British Airways • Mango • 1Time (defunct since November 2012)
Banking sector	• Absa • Capitec Bank • FNB • Nedbank • Standard Bank

Source: Compiled by the researcher.

7.5   UNIT OF ANALYSIS

The 'objects', 'entities' or 'cases' that researchers study and on which they collect and analyse data from which they draw final conclusions are referred to as units of analysis (Collis & Hussey, 2003; Cooper & Schindler, 2007; Mouton, 1996).

A construct such as *corporate reputation* can exist at both individual and organisational levels. Corporate reputation can be thought of as how an individual client evaluates the corporate reputation of an organisation. In this instance, one individual can be compared to one another, and the individual would be the unit of analysis. In another instance, one organisation (a bank) can be compared to another (another bank), and the sample size will then be determined by how many organisations are measured rather than by the number of individual respondents (Hair *et al.,* 2010: 731). In this study, the units of analysis were the individual clients of an organisation operating in the service industry in South Africa, because conclusions were drawn from the opinions and attitudes of these clients, based on what they take into account (the dimensions) in their judgement of whether an organisation is deserving of a high 'corporate reputation score' or not.

7.6   DATA SOURCES

Primary data refers to original data collected at the source. Secondary data, on the other hand, refers to data collected and recorded by someone else prior to the current study. Secondary data thus refers to existing data originating from books, journals, newspapers, reports, websites, published statistics and existing surveys (Saunders *et al.,* 2003).

In the present study, both primary and secondary data sources were used. Firstly, data was collected qualitatively, using a focus group that consisted of clients of a service organisation. Secondly, an extensive review of the existing literature was conducted. Thirdly, a panel of experts helped to refine the draft instrument. These three sources formed the basis for the formulation of a

new theoretical position about corporate reputation as seen from the perspective of clients of large organisations in the service industry. These sources also formed the basis for the identification of new dimensions that reflected the client-based corporate reputation of service organisations. Lastly but most importantly, primary data was collected by means of large-scale surveys in three waves.

7.6.1   Primary data sources

7.6.1.1 Focus group

Focus groups are participatory activities that integrate respondents into an assessment process (Dürrenberger, Kastenholz & Behringer, 1999). As it was the case in this study, focus groups often serve as sources of primary data in primarily quantitative studies (Morgan, 1997). In this study, the focus group explored specific issues reflecting the corporate reputation of their organisations, and data was generated from the interaction among the research participants, as recommended by Kitzinger and Barbour (1999) and Kitzinger (1994).

A focus group was conducted with a group of nine people, consisting of five males and four females between the ages of 25 and 40 years, who were clients of South African banks at the time that the focus group was conducted. An invitation was sent to each individual, with a full background briefing, to explain the purpose the event. The event was led by a professional moderator from a commercial market research firm, who conducted the focus group using a semi-structured interview to direct the discussion.

These clients were considered to be representative of the typical clients of service organisations and therefore only one focus group was conducted. The purpose of the focus group was to identify the factors that clients of service organisations – as opposed to general stakeholders of any type of business organisation – take into account when they evaluate the corporate reputations of banks. In previous studies, in almost all instances, the dimensions that were identified came from the perspective of all stakeholders and not only from the client stakeholder group. Mostly, they were also identified for all industries and not for the service industry only. The qualitative evidence from the focus group with clients was used to identify dimensions unique to corporate reputation from the perspective of clients of service organisations.

Certain themes (dimensions) regarding the manner in which the corporate reputations of organisations in the service industry are assessed, were discovered during the focus group discussions with clients. The main outcome of the focus group conducted with clients was new insights that emerged (Glaser & Strauss, 1968) in terms of what was initially labelled *Servicescape* as a possible new dimension of corporate reputation of service organisations for the client stakeholder group. This *Servicescape* dimension contained views pertaining to convenience – location and online services – and the physical environment in which clients received the service. Previously, this dimension went largely unnoticed. The *Servicescape* dimension was thus not

incorporated in previous research where instruments were developed to measure corporate reputation from the perspective of stakeholders or clients.

7.6.1.2   Large-scale survey

In this study, a questionnaire – a survey technique – was developed to collect data from the target population, namely clients of large service organisations. Surveys are the most frequently used method of collecting primary data from a sample of people by means of questionnaires or interviews in quantitative research (Stone, 1978; Trochim, 2006; Zikmund, 1994). Surveys are mainly used in studies that have individual people as the units of analysis, such as the present study, and are regarded as one of the best methods available to collect original data for researching a population too large to observe directly. Surveys are also particularly suitable to measure attitudes or orientations of a large population (Stone, 1978), as was the case in this study.

The survey technique was used to collect data on the dimensions (factors) that clients take into account when they evaluate or judge the corporate reputation attributes of service organisations. The online questionnaire was recorded on a section of the website of Stellenbosch University. The response data was captured on spread sheets on the website. A link to the online questionnaire was distributed to potential respondents by email. A self-administered questionnaire is typical of a positivistic research paradigm (Collis & Hussey, 2003), and this was considered appropriate for this study.

There is a long history of using questionnaires in quantitative research. Questionnaires work best with standardised questions that one can be confident will be interpreted in the same way by all respondents. It is recommended in the literature that questionnaires be used in conjunction with other methods such as focus groups, which was the case in this study. Questionnaires are regarded as suitable for collecting data on the opinions of respondents, which are analysed statistically (Saunders *et al.,* 2003). In this study, the utilisation of questionnaires with standardised questions was considered suitable to measure corporate reputation. Questionnaires would enable the researcher to quantify the responses, which would be statistically analysable.

7.6.1.3 Input by panel of experts

The Draft Instrument was sent to a panel of experts, consisting of academics and senior practitioners from South Africa and the rest of the world. After their feedback, the Wave 1 Instrument was finalised.

7.6.2   Secondary data sources

7.6.2.1   Literature review

A critical literature review is the foundation on which scholarly research is built. The literature is used to identify theories and information on which a new conceptual framework can be built (Saunders *et al.,* 2003).

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A comprehensive literature review was conducted in order to identify as many dimensions (factors) and associated items (indicators) as possible that constitute the construct of *corporate reputation*, as seen from the perspective of clients of an organisation in the service industry. During the literature review, the researcher also reviewed related phenomena such as *corporate identity*, *corporate image* and *corporate brand* because these phenomena are closely related to *corporate reputation*. Instruments that were developed to measure corporate reputation and, more specifically, client-based (customer-based) corporate reputation, were studied.

7.7   SCOPE AND DELIMITATIONS OF THE STUDY

It was decided to limit this study to the measurement of the dimensions that clients take into account when they evaluate the attractiveness of a service organisation, in other words, those dimensions that represent the attributes (characteristics) that constitute client-based corporate reputation in the service industry.

Because of the confusion between *corporate reputation* and related corporate concepts such as *corporate personality, corporate identity, corporate image* and *corporate brand*, these concepts were included in the literature review, but excluded from the study.

All antecedents (inputs) such as communication, advertising and other brand-building efforts to form corporate reputation, and the outcomes (consequences) of corporate reputation, such as decisions to support an organisation, were excluded.

This study was limited to the measurement of corporate reputation from the perspective of the client stakeholder group only. The study was thus not concerned with the measurement of overall corporate reputation from the perspective of all stakeholder groups or the assessments of any other stakeholder groups such as employees or investors.

The study was limited to the measurement of the corporate reputation of large organisations functioning in the service industry. Two well-known sectors in the service industry, namely airlines and banks, were selected as examples of services to test the measurement model developed for the service industry. It is acknowledged that organisations in the service industry may vary, and claims are not made regarding the generalisability of the instrument for all types of service organisations in all contexts and settings.

An extended conceptual model of the construct of client-based corporate reputation of service industry organisations is shown in Figure 7.1, including the attributes, antecedents and consequences, as well as the related constructs of corporate identity, corporate image and corporate brand. The focus of the study is shown in the diagram below.
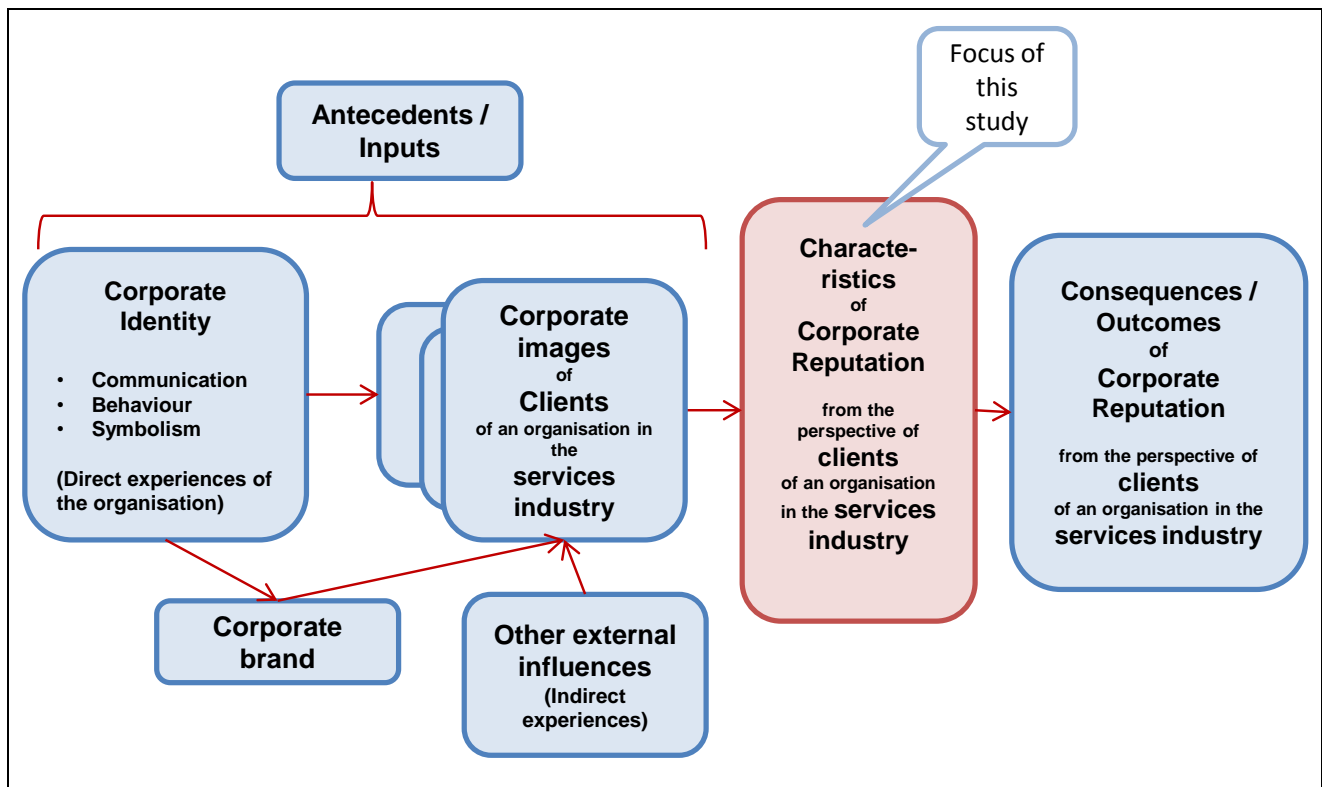
Figure 7.1: The scope of the study as part of an extended model of corporate reputation

7.8   STUDY POPULATION

A *population* or *universe* is defined as any complete group or body of people, in other words all elements (individuals, objects, groups and events) that meet the criteria for inclusion in a study (Collis & Hussey, 2003; Zikmund, 2003).

The theoretically-defined study population for this study is all clients of all service industry organisations in South Africa. However, the complete body of clients of all organisations functioning in the service industry in South Africa could not be sourced. It was impossible to acquire lists containing the total population of clients of all service organisations functioning in South Africa. Therefore, the term *accessible population* is used (Trochim, 2006).

The decision was made to choose two sectors – the banking and airline sectors – to represent service industry organisations. The total client pool of the ten large organisations that operate in these two sectors, namely five banks and five airlines, could also not be sourced. However, some clients of these organisations were accessible by other means. The clients of these ten large organisations in the two chosen service industry sectors in South Africa could be accessed by utilising the client databases of other service organisations.

Alumni of the University of Stellenbosch Business School (USB) and its executive development arm, USB Executive Development (USB-ED), who were living in South Africa at the time of the study and who studied towards a degree, postgraduate diploma or executive development programme at these institutions, were readily accessible. It was argued that the alumni contained in the databases of these service organisations were all living in South Africa and would therefore

probably also be clients of other service industry organisations. This frame (the entire database of USB and USB-ED) would thus be suitable to access the clients of banks and airlines in South Africa. To prove that the client database of USB and USB-ED was not different from that of any other service organisation and that it indeed contained the names of typical clients of South African banks and airlines and that similar results could thus be obtained, a second database, namely a commercial database containing the names of 8 047 working individuals in South Africa, was used to replicate the results. The people appearing in the commercial database were also likely to be clients of a bank or airline in the country.

The names contained in the USB and USB-ED alumni database and the commercial database were utilised in a census study in three consecutive waves of data collection. Two frames (containing all names in the two available databases) were thus used to access the clients of large organisations in the two chosen service sectors, namely banks and airlines operating in South Africa. The first frame chosen for this survey-based research study comprised 17 629 South Africans – the entire alumni population – contained in the database of USB and USB-ED, living in the country at the time when the survey was conducted. The second frame consisted of 8 047 names of South Africans contained in the commercial database – the entire population of this database. The commercial database was obtained from a marketing firm that compiles the names and contact details of working individuals in South Africa who had given permission for their names and details to appear in such a database.

This method – the use of frames – of accessing the clients of organisations functioning in two service sectors (banks and airlines) was regarded to be in order, because the purpose of the study was not to generalise the results generated from the data collected from a sample to a larger population. Generalisability was thus not the primary purpose of the study (DeVellis, 1991; Fava, Velicer & Rossi, 1995). The main purpose of the present study was to design a new measurement instrument that could be used by large service organisations to measure its corporate reputation from the perspective of its clients. Worthington and Whittaker (2006: 816) made the point that in instances where the sample characteristics (names of alumni of USB and USB-ED, as well as the names of people in the commercial database) might be at a variance from the unknown population characteristics (the clients of service industry organisations), researchers 'adjust to these unknowns and simply move forward with a sample that is adequate but not ideal'. In a content analysis of 21 cases of best practices in new scale development, Worthington and Whittaker (2006) found that researchers in most cases used methods such as *convenience* and *purposive sampling*.

The full USB and USB-ED alumni database was split into four equal and random parts. The first and second parts of the database were used for Wave 1 of the study, and the third and fourth parts for Wave 2. The full commercial database was also split into two equal and random parts and used

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in Wave 3 of data collection. A visual representation of the split of the two databases is shown in Figure 7.2 below.
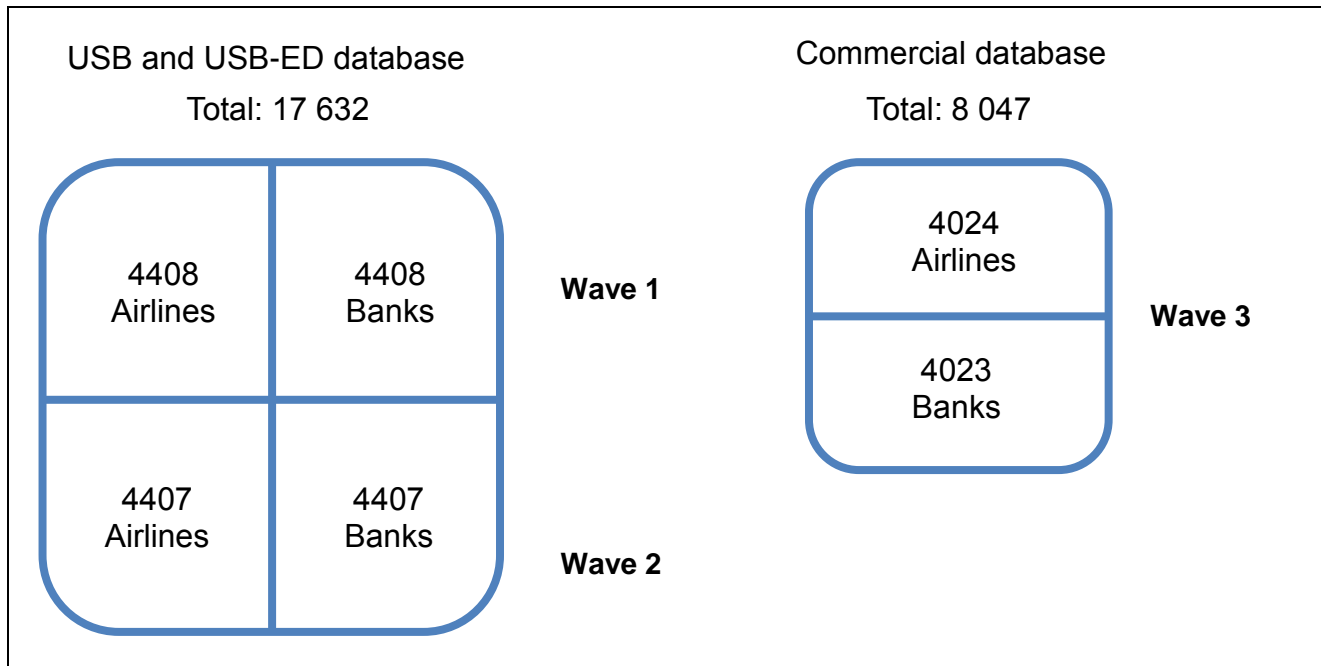
Figure 7.2: The two databases used in this study

Source: Researcher.

7.9   FORMATTING THE QUESTIONNAIRE

According to Babbie (2010) and Churchill (1979), a scale or measurement instrument is composed of fairly strong and clearly stated items that have a logical or intensity structure (different degrees or levels) among them (e.g. the Likert scale).

It is important that a scale generates sufficient variance among respondents for the data to be statistically analysable (Hinkin, 1995). A 7-point Likert-type interval scale was used in this study, intended to request respondents to indicate their extent of agreement with regard to each statement. The Likert scale was interpreted as: 1 = 'I strongly disagree'; 2 = 'I disagree'; 3 = 'I disagree somewhat'; 4 = 'I am neutral'; 5 = 'I agree somewhat'; 6 = 'I agree'; and 7 = 'I strongly agree'. Adopting an interval scale for the measurement instrument allowed for the required statistical data analysis to be undertaken (Cooper & Schindler, 2007; Leedy & Ormrod, 2005).

All items were positively phrased. In recent years, the use of negatively worded (reverse-scored) items came under scrutiny by a number of researchers (Hinkin, 1995). Some studies have shown that negatively-worded items may reduce the validity of questionnaire responses (Schriesheim & Hill, 1981) and may cause systematic error in a scale (Jackson, Wall, Martin & Davids, 1993). The items were randomised in all three waves. The questionnaires used in the three waves also included four questions pertaining to demographic information, namely age group, gender, the province in which they reside in South Africa and highest academic qualification.

As a final procedure in all three waves, the questionnaire was duplicated and adapted for the banking and airline sectors. The first questionnaire in each wave was customised for clients of banks and the second one for the clients of airlines (see Appendices B to G for the 6 questionnaires used in Waves 1, 2 and 3). In other words, respondents in the Airline sample would answer questions only in respect of the airline they use most frequently and respondents in the Bank sample would only answer questions in respect of the bank they use most frequently.

Electronic cover letters – customised for clients of banks and clients of airlines – were prepared. These letters were sent to the six different subsamples in the three Waves (three subsamples containing clients of banks and three containing clients of airlines), inviting respondents to participate. The letters provided details concerning the purpose of the study, as well as instructions on how to complete the questionnaire and the deadlines for completion. In all instances, the letters contained a unique direct link to the online questionnaires, which were placed on a website of Stellenbosch University (see Appendix A for the two cover letters used in Wave 1. The letters for the three waves remained the same, except for the deadlines for completion).

To ensure that the respondents were qualified to participate in the study (that they were indeed clients of a bank or clients of an airline), qualifying questions were asked to the respondents at the outset of all three waves of data collection. The first question pertained to whether the respondent was a client of either a bank or an airline in the 12 months prior to completing the questionnaire. A drop-down menu offered respondents a choice between 'Yes' and 'No'. If respondents answered 'No' to this first question, they were thanked for their time and they were not allowed to continue to complete the questionnaire. If they answered 'Yes', thereby confirming that they were eligible to partake in the study, they were asked, by means of a drop-down menu, to choose the specific organisation (one of the banks or one of the airlines) to evaluate with the measurement instrument.

For respondents of the Bank subsample, the following two questions were asked:

- Have you been a client of a bank in South Africa during the past 12 months?
- With which bank did you do most of your business during the past 12 months?

For respondents of the Airline subsample, the following two questions were asked:

- Have you travelled by domestic airline in South Africa during the past 12 months?
- With which airline did you fly most often during the past 12 months?

7.10   DEVELOPMENT OF A CLIENT-BASED CORPORATE REPUTATION SCALE

In this study, special cognisance was taken of the scale development procedures suggested by Churchill (1979), as well as later scale developers such as DeVellis (1991, 2003), Hinkin (1995), Rossiter (2002) and Worthington and Whittaker (2006) to develop a new instrument for measuring client-based corporate reputation in service organisations. A detailed discussion of the scale development processes proposed by these researchers as well as the contributions of others such

as Gerbing and Anderson (1988), Malholtra *et al.* (1999), Rossiter (2002), Diamantopoulos (2005, 2010), Diamantopoulos and Siguaw (2006), and Diamantopoulos and Winklhofer (2001), can be found in Chapter 5.

7.10.1　Generation of item pool

The generation of items happens when the content from the literature and other data sources, such as focus groups, is transformed into statements (Radhakrishna, 2007). Churchill (1979) and DeVellis (2003) concurred that a sufficient pool of items must be identified that adequately captures the domain of the construct (Hinkin, 1995; Schriesheim, Powers, Scandura, Gardiner & Lankau, 1993).

In this study, items were developed deductively and inductively. The *deductive approach* entails a classification or typology prior to data collection. This approach requires a thorough understanding of the phenomenon to develop the theoretical definition of the construct. In this study, the deductive approach was used after a comprehensive review of the literature and an investigation of how variables were defined previously. The second approach – the *inductive approach* – was also utilised in this study during a focus group conducted with clients. In the focus group discussion respondents shared their opinions about the attributes of the organisations from which they buy services, as well as their experiences of the behaviour of the organisations (Hinkin, 1995; Schwab, 1980).

Numerous scholars agreed that corporate reputation is a multi-dimensional construct (Fombrun *et al.*, 2000; Fischer & Reuber, 2007; Love & Kraatz, 2009). According to Lange *et al.* (2011: 180), the '…multidimensional nature of the construct has been underexplored'.

At this stage of the development process, the researcher postulated that corporate reputation is a reflective higher-order (second-order) latent (unobservable) construct with ten first-order directly observable (measurable) dimensions. Each of the first-order dimensions represents different aspects of corporate reputation (for which the organisation is known).

In reflective measurement models, the construct underlies its dimensions, where each dimension is a different manifestation of the multi-dimensional construct. Only a change in the construct itself could influence scores on the individual dimensions (Agarwal *et al.*, 2014). A latent construct in reflective models exists as a real entity, independent of its measurements. In formative models, however, the estimation of parameters depends on the dependent variables (dimensions) and the latent construct (corporate reputation) is not ascribed any real existence (Borsboom *et al.,* 2003). See a detailed discussion of reflective and formative instruments in §5.2.1.

Each item of the ten dimensions was expressed by a statement, describing an aspect of a factor (dimension) making up the main construct of client-based corporate reputation in a service organisation. The set of items represented the factors in such a way that factor-analytic, data-

reduction techniques could yield a stable set of underlying factors to accurately reflect the main construct (Worthington & Whittaker, 2006).

According to Churchill (1979), Clark and Watson (1995) and DeVellis (2003), redundancy or over-inclusiveness in order to represent all major content areas (all dimensions) is acceptable at this stage (a set of 80 to 100 items), because multiple items are seen to constitute a more reliable test. Starting with a pool of items three or four times as large as the final scale, as was the case with this study, is considered to be normal. Special attention was given to the writing of clear, unambiguous items that measure the construct and cover the entire domain (Noar, 2003).

A total of 63 items, representing ten dimensions, was initially generated from the focus group and from the existing literature to reflect the theoretical domain of the construct of client-based corporate reputation of an organisation in the service industry. The ten dimensions of client-based corporate reputation in the Draft Instrument were conceptualised as: *Emotional appeal*, *Service quality, Financial performance, Vision and leadership, Workplace environment, Social and environmental responsibility, Client orientation, Quality of management, Market leadership* and *Servicescape.* The Draft Instrument is shown in Table 7.2.

Table 7.2: Draft Instrument based on literature review and focus group discussion

Dimensions	Items
Emotional appeal	• I have a good feeling about XY • I admire XY • I respect XY • I trust XY • I am proud to be associated with XY
Service quality	• XY offers high-quality services • XY stands behind its services (back-up and after-sale service) • XY develops innovative services • XY offers services that are good value for money • XY offers services for my needs and lifestyle • XY offers reliable services • XY regularly introduces new services • XY is convenient to do business with
Financial performance	• XY attracts good investors • XY has a high market value • XY tends to outperform its competitors financially • XY looks like a company with good prospects for the future • XY appears to make financially sound decisions • XY performs well financially

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Dimensions	Items
Vision and leadership	• XY responds well in a crisis (when having to deal with negative publicity) • XY has a clear vision of the future • XY has excellent leadership • The leadership of XY is held in high regard • XY and I share a similar set of values • The public knows what XY stands for • XY's leadership is prominent
Workplace environment / good employer	• XY looks like a good company to work for • XY has skilled employees • XY treats its employees well • XY seems to pay attention to the needs of its employees • Employees seem to be satisfied with XY • XY seems to attract and keep talented employees
Social and environmental responsibility	• XY supports good causes through sponsorships • XY conducts its business honestly, fairly, ethically and with integrity • XY is committed to protect the environment • XY is committed to social responsibility (social issues) • XY actively participates in communities where it does business • XY adheres to principles of good governance • XY shows a sense of accountability • XY competes fairly in the marketplace • XY's advertising is responsible
Client orientation	• XY has built a good relationship with its clients • XY treats its clients fairly • XY responds to clients' needs • XY treats its clients with respect • XY seems to care about all of its clients regardless of how much money they spend with them • I am rewarded for my loyalty to XY
Quality of management	• XY's management has a smart / go-getter attitude • XY has good structures and systems in place • XY's managers are accessible • XY provides frequent communication that is valuable to me • XY listens to me • XY has good management in place
Market leadership	• XY is powerful in the marketplace • XY recognises and takes advantage of market opportunities • XY is a leader in its industry • XY's services are familiar to the public • XY is a familiar name in the market
Servicescape	• XY's outlets (branches) are conveniently located • XY's outlets (branches) are clean and tidy • XY delivers a consistent service across all its outlets (branches) • I feel safe/secure when using XY's services • XY offers its services in a professional environment

7.10.2   Refinement by panel of experts

As a point of departure to develop a new instrument, researchers agree that an item pool should possess *face validity* before a construct can be operasionalised. *Face validity* refers to the extent to which an instrument appears to be measuring what it is intended to measure (Anastasi, 1988; Churchill, 1979; DeVellis, 2003; Hardesty & Bearden, 2004; Tull & Hawkins, 1993; Zikmund, 2003). In this study, the core dimensions that are considered when corporate reputation is assigned to a services-based organisation by its clients were identified during the literature review and the focus group.

To ensure *face validity* and to refine the initial item pool, the opinions of a panel of experts were solicited after the initial item pool was generated and prior to finalising the questionnaire. The panel rated the relevancy of each item with regard to the defined construct. A number of people were invited to scrutinise the Draft Instrument and to give their input regarding the *face validity* of the instrument (Nunnally, 1978). The following groups of people were involved in this process:

i)   Senior academics in South Africa and abroad working in the field of corporate reputation and corporate communication.

ii)   Senior practitioners from all over the world working in the field of corporate reputation as consultants and senior managers.

iii)   Senior managers working in the two chosen sectors in the service industry in South Africa (banking and airlines).

A discussion was initiated on the LinkedIn social media page of the Reputation Institute and the following question was posed:

> 'Are you interested in being part of a panel of experts reviewing the item pool for the corporate reputation measurement instrument (from a client perspective) that I am developing for my PhD studies?'

At the same time, emails were sent to the international and local academics, as well as to the senior managers working in the banking or the airline sectors in South Africa to take part in this phase. A total of 45 responses on the invitation to provide input on the initial item pool were received. These respondents consisted of 22 senior practitioners from all over the world, 13 local and international academics, and ten senior practitioners working in either the banking or the airline sector in South Africa.

These experts were asked to judge whether the ten dimensions and 63 items in the Draft Instrument sufficiently represented the new construct (client-based corporate reputation of organisations in the service industry) and whether the items in the instrument were considered relevant, necessary and meaningful. Recommendations for additional items or the deletion of others were solicited. The feedback from this group resulted in identifying shortcomings in the initial measurement instrument and enhancing the face validity of the proposed dimensions.

One point made by several of the expert panel members was that this study was addressing an important gap in the current field of study, namely to 'narrow down' the measurement of corporate reputation from an overall assessment by all stakeholders in all industries to an instrument that will be able to measure the attributes of corporate reputation from the perspective of clients of service organisations only. Another very strong argument by several members of the panel was that *corporate social responsibility* was still very relevant but not sufficient to capture the 'higher level of intensity' of social engagement that had been shifting beyond mere peripheral activities in organisations to become part of the mainstream of the business activities of an organisation. This 'higher level of intensity' could be termed *Social engagement*. Subsequently, the *Social engagement* dimension was included as the eleventh dimension in the Wave 1 Instrument in this study.

Based on the feedback received by the panel of experts, several changes and additions were made to the preliminary set of items. Items that were not related to the construct were eliminated, others that were unclear were rephrased and new items were added to reflect the construct better (Babbie & Mouton, 2001). The feedback from the panel suggested a high level of face validity. Clark and Watson (1995) emphasised that good scale construction is an iterative process involving several periods of item writing.

The Wave 1 Instrument comprised eleven dimensions and 73 items. This instrument was based on information obtained from the in-depth literature review, the focus group and the inputs from the panel of expert. Table 7.3 shows the dimensions, items and codes of the Wave 1 Instrument (see also Appendices B to G for the Wave 1 Instrument, as distributed to the Bank and Airline subsamples).

Table 7.3: Wave 1 Instrument

Dimensions	Codes	Items
Emotional appeal	EMA1	I have a good feeling about my bank/my airline
	EMA2	I admire my bank/my airline
	EMA3	I respect my bank/my airline
	EMA4	I trust my bank/my airline
	EMA5	I am proud to be associated with my bank/my airline
	EMA6	I like my bank/my airline
Service quality	SER1	My bank/my airline offers high-quality services
	SER2	My bank/my airline stands behind its services (after-sales service)
	SER3	My bank/my airline develops innovative services
	SER4	My bank/my airline offers services that are good value for money
	SER5	My bank/my airline offers services that fit my needs
	SER6	My bank/my airline offers reliable services
	SER7	My bank/my airline regularly introduces new services
	SER8	My bank/my airline is convenient to do business with
	SER9	My bank/my airline offers solutions that saves me time
	SER10	My bank/my airline offers value for money
Financial performance	FIP1	My bank/my airline attracts good investors
	FIP2	My bank/my airline is profitable
	FIP3	My bank/my airline outperforms its competitors financially
	FIP4	My bank/my airline looks like a company with good prospects for the future
	FIP5	My bank/my airline appears to make financially sound decisions
Vision and leadership	VIL1	My bank/my airline responds well in a crisis (e.g. on negative publicity)
	VIL2	My bank/my airline has a clear vision of the future
	VIL3	My bank/my airline has excellent leadership
	VIL4	The leadership of my bank/my airline is held in high regard
	VIL5	My bank/my airline and I share a similar set of values
	VIL6	The public knows what my bank/my airline stands for
	VIL7	My bank's leadership is prominent
Good employer	GEM1	My bank/my airline appears to be a good company to work for
	GEM2	My bank/my airline has skilled employees
	GEM3	My bank/my airline treats its employees well
	GEM4	My bank/my airline seems to pay attention to the needs of its employees
	GEM5	Employees seem to be satisfied with my bank/my airline
	GEM6	My bank/my airline seems to have talented employees
Corporate social responsibility	CSR1	My bank/my airline supports good causes
	CSR2	My bank/my airline conducts its business fairly, ethically and with integrity
	CSR3	My bank/my airline is committed to protect the environment
	CSR4	My bank/my airline is committed to social responsibility (social issues)
	CSR5	My bank/my airline participates in communities where it does business
	CSR6	My bank/my airline adheres to principles of good governance
	CSR7	My bank/my airline competes fairly in the marketplace
	CSR8	My bank/my airline adheres to responsible advertising practices

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Dimensions	Codes	Items
Client orientation	COR1	My bank/my airline has built a good relationship with its clients
	COR2	My bank/my airline treats its clients fairly
	COR3	My bank/my airline responds to its clients' needs
	COR4	My bank/my airline treats its clients with respect
	COR5	My bank/my airline seems to care about all of its clients regardless of how much money they spend with them
	COR6	I am rewarded for my loyalty to my bank/my airline
	COR7	I feel safe/secure when using my bank's/my airline's services
Quality of management	QUM1	My bank's/my airline's management is dynamic
	QUM2	My bank/my airline has good structures and systems in place
	QUM3	My bank's/my airline's managers are accessible
	QUM4	My bank/my airline provides frequent communication that is valuable to me
	QUM5	My bank/my airline listens to me
	QUM6	My bank/my airline has good management in place
Market leadership	MAL1	My bank/my airline is a market leader
	MAL2	My bank/my airline takes advantage of market opportunities
	MAL3	My bank/my airline is a leader in its industry
	MAL4	My bank's/my airline's services are familiar to the public
	MAL5	My bank/my airline is a well-recognised brand
	MAL6	My bank/my airline is open and transparent in its communication
	MAL7	My bank's/my airline's communication and advertising is effective
	MAL8	My bank's/my airline's after-sale communication and response is adequate
Servicescape	SES1	My bank's/my airline's branches/outlets are conveniently located
	SES2	My bank's/my airline's branches/outlets are clean and tidy
	SES3	My bank/my airline delivers consistent service at all service points
	SES4	My bank/my airline offers services in a professional environment
	SES5	My bank's/my airline's online services are user-friendly
	SES6	My bank's/my airline's online services are effective
	SES7	I am satisfied with my bank's/my airline's service
Social engagement	SOE1	My bank/my airline engages with its stakeholders
	SOE2	My bank/my airline responds to the needs of communities
	SOE3	My bank/my airline reaches out to its social environment

7.10.3   Pre-test

The next step was to subject the questionnaire items (Wave 1 Instrument) to a pre-test with the purpose of detecting potential problems in the instructions, wording or design of the questionnaire and the covering letter (Cooper & Schindler, 2007). With this step, it was ensured that the questionnaire was performing well in its online format and that the spread sheets created were correctly formatted for statistical analyses to be performed. Twenty academic colleagues working in the field of business management and administration, former academics in this field and senior administrative staff of the University of Stellenbosch Business School completed the pre-test. The online questionnaire performed well, although a few changes were made to the wording of the

covering letter for clarity purposes. One item was reworded after advice from this group was taken into account.

7.10.4 Operational definition and operationalisation

According to Hair *et al.* (2006), the process of developing sound measurement instruments begins with a definition of the constructs, which provides a basis for operationalisation. Based on these operationalisations, appropriate indicators (questionnaire items) can be generated and an appropriate measurement scale developed.

Research involves the measurement of concepts and constructs which requires more rigorous definitions, also known as *operational definitions*. *Operational definitions* are stated to specify characteristics that can be counted or measured. The specifications must be clear enough for anyone to classify the object in the same way, as confusion about the meaning of concepts can destroy the value of a research study (Cooper & Schindler, 2007).

After having conducted a focus group, completed the literature review and received input from a panel of experts, the preliminary conclusion was drawn that corporate reputation reflecting the perspective of clients (as a 'sub'-stakeholder group) in the service industry is a separate construct, with a unique set of underlying dimensions (latent variables). Although a number of measurement instruments had been developed previously to assess corporate reputation from the perspective of all stakeholders, existing instruments that were developed to measure corporate reputation from the perspective of clients of an organisation providing services – including the one of Walsh and Beatty (2007) and the shortened version of Walsh, Beatty and Shiu (2009) – were questionable (see §6.4 for a discussion of existing measures of overall corporate reputation (from the perspective of all stakeholders), and §6.5 for client-based measures of corporate reputation. The instruments of Walsh and Beatty, 2007, and Walsh, Beatty and Shiu, 2009, are discussed in detail in §6.5.1).

For the purpose of this study, the operational definition of **corporate reputation as seen from the perspective of clients of an organisation in the service industry** was formulated as follows:

> ***Client-based corporate reputation* is the assessment (evaluation) of the attributes of a large service organisation, based on the client's beliefs about and attitudes on the organisation's *Emotional appeal*, *Service quality*, *Financial performance*, *Vision and leadership*, *Workplace environment*, *Social and environmental responsibility*, *Client orientation*, *Quality of management*, *Market leadership*, *Servicescape* and *Social engagement*.**

This definition of *client-based corporate reputation* is rooted in the literature on corporate reputation and client-based corporate reputation in services (see Chapter 2), developed over the last decades. It also draws on the literature on related concepts such as *corporate personality, corporate identity, corporate image* and *corporate brand* (Chapter 3), stakeholder theory, social

constructionist theory, the resource-based view of the firm and institutional theory (Chapter 2). In addition, it was shaped by the focus group discussion held with clients of an organisation functioning in the service industry (§7.6.1.1), as well as the comments and feedback received from the panel of experts (§7.10.2) and the people that took part in the pre-test (§7.10.3).

A questionnaire was used to operationalise the latent variables (latent constructs) with specific dimensions (Mouton & Babbie, 2001). Latent variables are variables that are not directly observable or measured. Observed, measured or indicator variables (items) are used to define or measure latent variables (Schumacker & Lomax, 2010).

To ensure the validity and reliability of the new measurement instrument, it is essential to define the dimensions of the Wave 1 Instrument accurately and clearly. In the section below, the various operational definitions of the latent variables (dimensions) are provided. These definitions are based on both the interpretation of secondary sources (literature) and primary sources (focus group and the input of the panel of expert judges).

7.10.4.1 Emotional appeal

Emotional appeal, for the purpose of this study, is defined as *the extent to which a client of an organisation has a good feeling about the organisation, admires, respects, trusts and likes the organisation and is proud to be associated with the organisation*.

In developing the items to measure the Emotional appeal dimension of corporate reputation, the Reputation Quotient (RQ), developed by Charles Fombrun and co-researchers, were consulted (Fombrun *et al*., 2000; Fombrun & Van Riel: 2004; Gardberg, 2006; Gardberg & Fombrun, 2002; Van Riel & Fombrun, 2002). The *Emotional appeal* dimension also features in the 'modern' short-form version of the RQ, known as the RepTrak™, which was developed later and is widely used in the largest annual survey of stakeholders of companies across a number of countries (Ponzi *et al*., 2011; *The 2011 Global RepTrak™ 100 & 'glocal' reputation management*, 2011). The scale proposed by Walsh and Wiedmann (2004) also contains the dimension *Emotional appeal*. See Chapter 6 for a full description of the *Emotional appeal* dimension in the RQ and other scales in §6.4 to §6.6.

In operationalising the *Emotional appeal* dimension, the researcher used the 'trust', 'admiration', 'respect' and 'good feeling' elements of the RQ and the RepTrak™ instruments, and added another two items, namely 'like' and 'proud to be associated with', because elements of 'likability' and 'proud to be associated with' were reported in the literature to be a reflection of corporate reputation (Fombrun & Van Riel, 2004; Gabbionetta *et al*., 2007). Six items represented this dimension.

Some researchers argued against the inclusion of the *Emotional appeal* dimension as part of the corporate reputation construct (Sarstedt *et al*., 2013; Schwaiger *et al*., 2009) and suggested that it is a consequence (outcome) of corporate reputation.

The six items formulated to measure the construct *Emotional appeal*, as operationalised above, are listed in Table 7.4 below.

Table 7.4: The operationalisation of *Emotional appeal*

Code	Item
EMA1	I have a good feeling about XY
EMA2	I admire XY
EMA3	I respect XY
EMA4	I trust XY
EMA5	I am proud to be associated with XY
EMA6	I like XY

7.10.4.2 Service quality

For the purpose of this study, *Service quality* is defined as *the client's evaluation of the high quality, innovation, reliability and convenience of the services of an organisation. Quality of services is also an indication that a client thinks the organisation stands behinds its services (and backs them up by means of an after-sale service), and that it fits his/her needs and is value for money. Lastly, it is a reflection of a client's opinion that the organisation regularly introduces new services and offers solutions that save him/her time.*

This *Service quality* dimension – although called by different names such as *Services, Quality of services* or *Products and services* – features strongly in nearly all scales developed to measure corporate reputation in the past. *Products and services* is one of the rational dimensions in the RQ and RepTrak™ scale (see Fombrun *et al.*, 2000; Gardberg & Fombrun, 2002; *Global Reputation Pulse*, 2010) and all four the items were used in the new scale in this study, but the word *Products* was deleted as the new instrument was developed for the service industry. The four items are: 'XY stands behinds its services', 'XY develops innovative services', 'XY offers high-quality services' and 'XY offers services that are good value for money'. Walsh and Wiedmann (2004) also developed a scale with *Products and Services* as one of ten dimensions. Worcester (2009) named his scale the Pillars of reputation and included *Product quality* as one of the four dimensions.

A significant study to develop a scale for stakeholder groups individually was conducted by Lloyd (2007). For the customer stakeholder group, he identified five dimensions, with *Quality of products and services* as one of them. For the purpose of this study, the dimension is called *Service quality* and the word 'products' was omitted.

Walsh and Beatty (2007) identified five dimensions of customer-based reputation in service firms and developed a Customer Based Reputation (CBR) scale to measure them. Four of the five dimensions – including *Product quality* – overlapped largely with the RQ scale. In a later study, Walsh, Beatty and Shiu (2009) developed a shortened version of the CBR.

The *Service quality* dimension featured strongly in the focus group phase of this study where clients mentioned several aspects of *Service quality* (value for money, availability of stock and quality services) to be important in their evaluation of their organisations.

The ten items formulated to measure the construct *Service quality*, as operationalised above, are listed in Table 7.5 below.

Table 7.5: The operationalisation of *Service quality*

Code	Item
SER1	XY offers high-quality services
SER2	XY stands behind its services (back-up and after-sale service)
SER3	XY develops innovative services
SER4	XY offers services that are good value for money
SER5	XY offers services that fit my needs
SER6	XY offers reliable services
SER7	XY regularly introduces new services
SER8	XY is convenient to do business with
SER9	XY offers solutions that save me time
SER10	XY offers value for money

7.10.4.3 Financial performance

For the purpose of this study the dimension (construct) *Financial performance* is defined as *the extent to which a client of an organisation in the service industry believes that the organisation is attracting good investors, is profitable, outperforms its competitors financially, appears to be making sound financial decisions and looks like a company with good prospects for future growth*.

Both the RQ and the RepTrak™ scales included *Financial performance* as one of the dimensions of corporate reputation (Fombrun *et al.*, 2000; Gardberg & Fombrun, 2000; Ponzi *et al.*, 2011). The four items representing this dimension were 'profitability', 'low-risk investment', 'outperformance of competitors' and 'strong prospects for future growth'. Walsh and Wiedmann (2004) also included *Financial performance* in their extended ten-dimensional RQ scale. Helm (2005) developed a scale with ten constructs including *Financial performance*. Yoon *et al.* (1993), who developed a one-dimensional construct with ten items, concluded that *Financial performance* was less important to customers than to other stakeholders.

The five items formulated to measure the construct *Financial performance*, as operationalised above, are listed in Table 7.6 below.

Table 7.6: The operationalisation of *Financial performance*

Code	Item
FIP1	XY attracts good investors
FIP2	XY is profitable
FIP3	XY outperforms its competitors financially
FIP4	XY looks like a company with good prospects for future growth
FIP5	XY appears to make financially sound decisions

7.10.4.4 Vision and leadership

Vision and leadership, for the purpose of this study, was defined as *the extent to which a client of an organisation evaluates the organisation as having a clear vision of the future. Furthermore, it is a reflection of the extent to which a client feels that the public knows what the organisation stands for and the extent to which it responds well when having to face negative publicity during a crisis. It is also an indication of the extent to which that client is of the opinion that the organisation shares his/her values, and has excellent and prominent leadership that is held in high regard*.

Vision and leadership features as a dimension in the RQ measure of corporate reputation (Fombrun *et al.*, 2000; Gardberg & Fombrun, 2002). The *Vision and leadership* dimension of the RQ is measured by three items, namely 'excellent leadership', 'clear vision of the future' and 'recognises and takes advantage of market opportunities'. For the present study, the first two items were retained, but the third was seen as being part of the *Market leadership* dimension of this study. In the RepTrak^TM measure, the dimension is called *Leadership*. This *Leadership* dimension in RepTrak^TM contains elements of the *Quality of management* dimension in the present study (e.g. 'How do stakeholders perceive the leaders and management competencies of the company?' and 'Does the company appear well organised?'). Thus, these items were not included in the *Vision and leadership* dimension but rather in the *Quality of management* dimension. The third item pertaining to *Vision* was retained ('Does the company have a clear vision for the future?') (*Global Reputation Pulse*, 2010). Walsh and Wiedmann (2004) also included *Vision and leadership* as a dimension in their 'extended RQ scale'. Lloyd (2007) included two dimensions that have to do with *Leadership* in his scale measuring corporate reputation among consumers, namely *Management leadership* and *Ethical management and leadership*.

Members of the focus group in this study mentioned several aspects of the *Leadership* dimension, namely the behaviour of leaders during a crisis and their handling of bad publicity, as important indicators of *Leadership*.

For the purpose of this study, seven items were formulated to measure the dimension *Vision and leadership*, of which four overlapped with items in previous scales and three new ones were formulated. See Table 7.7 for the items formulated to measure the construct *Vision and leadership*, as operationalised above.

Table 7.7: The operationalisation of *Vision and leadership*

Code	Item
VIL1	XY responds well in a crisis (when having to deal with negative publicity)
VIL2	XY has a clear vision of the future
VIL3	XY has excellent leadership
VIL4	The leadership of XY is held in high regard
VIL5	XY and I share a similar set of values
VIL6	The public knows what XY stands for
VIL7	XY's leadership is prominent

7.10.4.5 Good employer

Good employer, for the purpose of this study, was defined as *the extent to which a client of an organisation in the service industry perceives an organisation as having skilled and talented employees who seem to be satisfied with the organisation, being a good company to work for, treating its employees well and paying attention to the needs of its employees.*

Walsh and Beatty (2007) and Walsh, Beatty and Shiu (2009) included *Good employer* in their customer-based scales of corporate reputation. Four of the items in the *Good employer* dimension of the initial 28-item scale (see Walsh & Beatty, 2007) were retained in this study, namely 'looks like a good company to work for', 'seems to treat its people well', 'has management who seems to pay attention to the needs of its employees' and 'seems to have good employees', although with slightly different wording. In the RQ scale, this dimension is called *Workplace environment* (Fombrun *et al.*, 2000; Gardberg & Fombrun, 2002). Two of the items in this dimension are retained, worded slightly differently, for the purpose of this study, namely 'looks like a good company to work for' and 'looks like a company that would have good employees'. Walsh and Wiedmann's scale (2004) also includes *Workplace environment* as a dimension, while in the RepTrak™ scale it is called *Workplace*, with items concentrating on fairness, decent wages and investment in employees' skill sets (*Global Reputation Pulse*, 2010).

In this study, six items were formulated to measure *Good employer*. See Table 7.8 for the items formulated to measure the construct Good employer, as operationalised above.

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Table 7.8: The operationalisation of *Good employer*

Code	Item
GEM1	XY appears to be a good company to work for
GEM2	XY has skilled employees
GEM3	XY treats its employees well
GEM4	XY seems to pay attention to the needs of its employees
GEM5	Employees seem to be satisfied with XY
GEM6	XY seems to have talented employees

7.10.4.6 Corporate social responsibility

For the purpose of this study, *Corporate social responsibility* is defined as *the extent to which a client of an organisation believes that the organisation supports good causes, is committed to social issues and protects the environment, participates in communities where it does business, has good governance practices in place and conducts its business fairly, ethically and with integrity. Furthermore, it is a reflection of the extent to which a client judges the organisation to compete fairly in the marketplace and to adhere to responsible advertising practices*.

The study of Puncheva-Michelotti and Michelotti (2010) confirmed that a stakeholder's perceptions are based on a set of relatively uniform dimensions, of which *Social responsibility* is one. Şatir's study (2006) among hospital patients – thus also in the service industry – confirmed that *Social responsibility* was one of the dimensions of an instrument to measure corporate reputation in services. In the RQ scale this dimension is called *Social and environmental responsibility* (Gardberg & Fombrun, 2002). Two of the items are retained in this study, namely 'supports good causes' and 'is an environmentally friendly company' (worded differently). The RepTrak[TM] scale (*Global Reputation Pulse*, 2010) calls this dimension *Citizenship* and measures it with one item only, namely 'contributes positively to the community in a socially and environmentally responsible fashion'. In RepTrak[TM], though, another dimension – *Governance* – was added, which deals with 'doing business fairly and transparently' and with 'high ethical standards'.

Several aspects of *Corporate social responsibility* were mentioned during the focus group session (sponsorships, social responsibility projects, environmental contribution).

For the dimension *Corporate social responsibility* eight items were formulated. In Table 7.9, a list of the items formulated to measure *Corporate social responsibility* is shown.

Table 7.9: The operationalisation of *Corporate social responsibility*

Code	Item
CSR1	XY supports good causes
CSR2	XY conducts its business fairly, ethically and with integrity
CSR3	XY is committed to protect the environment
CSR4	XY is committed to social responsibility (social issues)
CSR5	XY actively participates in communities where it does business
CSR6	XY adheres to principles of good governance
CSR7	XY competes fairly in the marketplace
CSR8	XY adheres to responsible advertising practices

7.10.4.7 Client orientation

For the purpose of this study, *Client orientation* is defined as *the extent to which a client of an organisation in the service industry evaluates an organisation in terms of treating its clients fairly, responding to their needs, treating them with respect, caring about them regardless of the amount of money that they spend with the organisation and building good relationships with them. Client orientation also indicates that a client thinks that he/she is rewarded for his/her loyalty and feels safe/secure when he/she uses the services of the organisation.*

In their study, Walsh and Wiedmann (2004) investigated the generalisability of the RQ in Germany and proposed an extended ten-dimensional RQ, with *Perceived customer orientation* as one of the dimensions. Helm's instrument (2005) also contained a dimension called *Customer orientation*. The study of Puncheva-Michelotti and Michelotti (2010) confirmed, among others, two dimensions that are important in this regard, namely *Customer value* and *Consumer impact*. The 28-item Customer Based Reputation (CBR) scale of Walsh and Beatty (2007) and the 15-item scale of Walsh, Beatty and Shiu (2009) that was developed from the original scale, has *Customer orientation* as one of the dimensions. In the 28-item scale, this dimension is represented by six items, which was reduced to four items in the 15-item scale. For this study, three of the original six items have been retained – worded differently – namely 'has employees who are concerned about customer needs', 'treats its customers fairly' and 'seems to care about all of its customers regardless of how much money they spend with them'.

See Table 7.10 for the seven items formulated above to measure the dimension *Client orientation*.

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Table 7.10: The operationalisation of *Client orientation*

Code	Item
COR1	XY has built a good relationship with its clients
COR2	XY treats its clients fairly
COR3	XY responds to clients' needs
COR4	XY treats its clients with respect
COR5	XY seems to care about all of its clients regardless of how much money they spend with them
COR6	I am rewarded for my loyalty to XY
COR7	I feel safe/secure when using XY's services

7.10.4.8 Quality of management

In this study, *Quality of management* refers to *the degree to which a client of a service industry organisation evaluates that there is good management in place at the helm of the organisation, that management listens to him/her and provides frequent communication that is valuable, and the extent to which a client is of the opinion that management has good structures and systems in place and is dynamic and accessible*.

One of the dimensions of the scale that Helm (2005) developed as 'an alternative to the RQ', is *Quality of management*. The RepTrak^TM scale does not separate management and leadership, and some of the items about management fall under the *Vision and leadership* dimension in the present study (see discussion under §7.10.4.4) (*Global Reputation Pulse Report*, 2010). The study of Lloyd (2007) is significant as it identified five dimensions that seem to be important from the perspective of consumers (clients), of which *Ethical management and leadership* and *Leadership by management* are two. Puncheva-Michelotti and Michelotti (2010) confirmed *Management excellence* as one of the dimensions that stakeholders take into account when evaluating organisations.

The dimension *Quality of management* was operationalised by formulating six items. See Table 7.11 for the list of six items formulated above to measure Quality of management.

Table 7.11: The operationalisation of *Quality of management*

Code	Item
QUM1	XY's management is dynamic
QUM2	XY has good structures and systems in place
QUM3	XY's managers are accessible
QUM4	XY provides frequent communication that is valuable to me
QUM5	XY listens to me
QUM6	XY has good management in place

7.10.4.9 Market leadership

For the purpose of this study, *Market leadership* refers to *the extent to which a client of a services-based organisation perceives the organisation to be a leader in its industry, a market leader and a well-recognised brand. Furthermore, it refers to the extent to which the services of the organisation are familiar to the public, the organisation takes advantage of market opportunities and its communication and advertising are effective. It also refers to the degree to which the organisation is open and transparent in its communication and the extent to which its after-sales communication and responses are adequate.*

Dowling (2004b) developed a mixed measurement instrument – the Model of Corporate Reputation – in which he combined a corporate personality descriptor similar to the Corporate Character Scale of Davies *et al.* (2004), with descriptive/attitudinal items similar to the dimensions and items of the RQ instrument and the instruments of Helm (2005) and Schwaiger (2004). Dowling (2004b) called one of the dimensions *Market presence* and measured the dimensions with four items, namely 'well known, familiar', 'know what they stand for', 'leader in its field' and 'powerful presence in the marketplace'. Elements of all of these items are encapsulated in the items for the present study, but in a reworded form.

Market leadership is measured with eight items. The items formulated to measure the construct *Market leadership*, as operationalised above, are listed in Table 7.12 below.

Table 7.12: The operationalisation of *Market leadership*

Code	Item
MAL1	XY is a market leader
MAL2	XY takes advantage of market opportunities
MAL3	XY is a leader in its industry
MAL4	XY's services are familiar to the public
MAL5	XY is a well-recognised brand
MAL6	XY is open and transparent in its communication
MAL7	XY's communication and advertising are effective
MAL8	XY's after-sale communication and responses are adequate

7.10.4.10 Servicescape

Servicescape, for the purpose of this study, is defined as *the degree to which clients of a service-based organisation regard the services they receive as consistent at all service points, as user-friendly and as effective. Furthermore, it is the extent to which clients perceive services to be rendered in a professional environment, and the outlets (branches) to be conveniently located, as well as clean and tidy. Servicescape is also defined in terms of the overall satisfaction with the service of the organisation.*

Servicescape was identified as a dimension during the focus group phase of the study, where clients of organisations in the service industry emphasised four aspects that are different to the items encapsulated by the *Quality of services* dimension, which is more about the innovation of services, quality of services and services that fit the needs of clients. The four new items pertaining specifically to the point of service (*Servicescape*) dimension can be summarised around four aspects, namely 'location', 'cleanliness', 'convenience' and 'consistency across branches/service points', which were translated into items.

Servicescape indicators featured strongly in the focus group in this study. Clients of large organisations mentioned aspects such as cleanliness, convenience, consistency and location.

The *Servicescape* dimension was operationalised by formulating seven items. The items formulated above to measure the construct *Servicescape* are listed in Table 7.13 below.

Table 7.13: The operationalisation of *Servicescape*

Code	Item
SES1	XY's outlets (branches) are conveniently located
SES2	XY's outlets (branches) are clean and tidy
SES3	XY delivers a consistent service at all service points
SES4	XY offers services in a professional environment
SES5	XY's online services are user-friendly
SES6	XY's online services are effective
SES7	I am satisfied with XY's service

7.10.4.11 Social engagement

In this study, *Social engagement* is defined as *the degree to which a client of an organisation judges the organisation to engage with its stakeholders, to respond to the needs of communities and to reach out to its social environment.*

Social engagement was included as a separate dimension after analysing the feedback received from the panel of expert judges. They concluded that *Social engagement* is becoming more and more important and is moving away from the social responsibility sphere (a peripheral activity) into an organisation's main business processes. It should therefore be a separate dimension in the instrument. Important words used by the experts to describe this dimension were 'engagement', 'responsiveness' and 'reaching out'.

Three items were formulated to measure the dimension *Social engagement*. See Table 7.14 for the three items formulated to measure *Social engagement*.

Table 7.14: Operationalisation of *Social engagement*

Code	Item
SOE1	XY engages with its stakeholders
SOE2	XY responds to the needs of communities
SOE3	XY reaches out to its social environment

7.10.5 Data collection and quantitative analysis

When a measurement instrument is developed from scratch, as is the case in this study, certain decisions need to be made along the way. One of the decisions will be a trade-off between brevity (a shorter instrument which is not burdensome for respondents) and a longer scale, which will improve reliability (DeVellis, 2003). To start the development process, DeVellis (2003) recommended that the data may be split into two subsamples to purify and refine, as was done in this study. Sometimes a new dimension with new items may emerge, and in this case it is recommended that a new data set be used to confirm this change. According to Hair *et al.* (2010), when more than 20% of the items change, a new data set should be used for further verification. This procedure was followed in this study. New data sets were used in three rounds (called *Waves* throughout this document). Three waves of data collection and analysis were thus utilised to develop, purify and demonstrate the construct validity, reliability, model fit and invariance of the newly developed instrument.

Data collection during all three quantitative Waves was done by means of online surveys. Data from Wave 1 was used for scale purification and refinement, and data from Wave 2 and Wave 3 was used to refine the shortened instrument further. In all three Waves, the surveys were administered simultaneously in two batches to potential clients of banks and potential clients of airlines. There was no need to send out reminders at any stage during the three waves of data collection because the required number of responses was obtained at the cut-off date in all three instances.

7.10.5.1 Data collection and quantitative analysis (Wave 1)

i) **Data preparation**

As the objective was to develop a generic instrument that is not industry specific, the two data sets were merged, randomised and split in two equal parts of 519 each. The first sample of 519 (Sample 1) was used to purify and refine the instrument and the second sample of 519 (Sample 2) was used to replicate the results. Some researchers consider a sample of 500 preferable when performing both explanatory and confirmatory analysis, while others regard 300 to be sufficient and 150 to be the minimum for scale development purposes (Noar, 2003; Rubio, Berg-Weger & Tebb, 2001). The available data for data analysis comfortably exceeded these thresholds.

ii)   **Identification of factors (dimensions) and assessment of discriminant validity**

The quantitative data analysis phase of the study started with an exploration of the interdependent relationships in the data in order to identify underlying dimensions (factors) that explained the correlations among a set of indicator variables. Another purpose was to assess the discriminant validity of the identified factors (Farrell, 2010).

A measurement model with 11 dimensions and 78 underlying items, as identified in the corporate reputation literature and from the focus group, is a reasonable length to start off with, but much too long as a final measurement instrument meant for use in business practice. Such a long questionnaire has to undergo several rounds of refining and shortening. This purification objective can be achieved by first using an *exploratory factor analysis (EFA)* before proceeding to a *confirmatory factor analysis (CFA)*, as recommended in the literature (Fornell & Larcker, 1981). EFA is useful to identify if discriminant validity issues are a result of poorly performing (i.e. cross-loading) items. The ability of EFA to identify cross-loadings is particularly beneficial (Farrell, 2010). See a detailed description of EFA, SEM and CFA in Chapter 5, under §5.4.2.1, §5.4.2.2 and §5.4.2.3 respectively.

A second reason for performing an EFA prior to a CFA is that the literature to date does not provide much evidence of what the corporate reputation attributes entail in the service industry or among clients of an organisation specifically. For the initial Wave 1 questionnaire, much of the evidence regarding corporate reputation was derived from 'general corporate reputation' attributes in all industries and among all stakeholder groups.

As a first phase in the data analysis, before the exploration of the interdependent relationships in the data started, *Bartlett's Test of Sphericity* was utilised to assess whether factor analysis would be appropriate. Bartlett's Test is sensitive to departures from normality. Thus, if the samples come from non-normal distributions, this test will demonstrate non-normality (Bartlett, 1937; Snedecor & Cochran, 1989).

The *Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy*, both overall and for each variable, is an index which varies between 0 and 1. It is used to examine the appropriateness of factor analysis. The KMO statistic is a summary of how small the partial correlations are relative to the original (zero-order) correlations. The partial correlation for each pair of variables in the factor analysis is comprised of the correlation between those variables after partialling out the influence of all the other variables in the factor analysis. A value closer to 1 indicates that factor analysis should yield distinct and reliable factors. A value > 0.5 is regarded as acceptable for factor analysis to proceed (Cerny & Kaiser, 1977; Dziuban & Shirkey, 1974; Hair *et al.,* 2006; Kaiser, 1970).

For the purpose of analysing the relationships in the data (the underlying structure), an *EFA* was conducted with the data in Sample 1, using SPSS 18.0 for Windows. See a detailed description of EFA in §5.4.2.1.

Latent factors (latent variables or dimensions) are normally correlated with many items (indicator variables). An initial factor matrix seldom displays factors in such a way that they can be interpreted. Therefore, rotating the factors transforms the factor matrix into one that allows for easier interpretation. When rotating the factors, one would ideally like to see that each indicator variable (questionnaire item) has a non-zero or significant loading with only a few factors, and, if possible, with one factor only (Field, 2005: 9). The chosen method of factor extraction is based on whether one expects the underlying constructs to be correlated or not. In this study, it was expected that the constructs would be correlated and therefore a **Principal Axis Factor (PAF) with a Direct Quartimin Oblique (Orthogonal) rotation** of 78 Likert scale statements from the survey questionnaire was conducted on data collected from Sample 1 (519 respondents), as recommended by Field (2005; 2009).

The number of factors (dimensions) and items underlying the dimensions were identified (Hinkin, 1995; Worthington & Whittaker, 2006). To identify the number of factors (dimensions) to extract, **Eigenvalues**, the **Percentage of Variance Explained**, and the **individual factor loadings** were considered. Eigenvalues quantify the variance encapsulated by the factor. Eigenvalues greater than 1.0 are considered significant, whereas Eigenvalues below 1.0 are considered insignificant and are often discarded (Hair *et al.*, 2010: 109, 134). Thus, only factors with an Eigenvalue greater than 1.0 were retained.

Factor analysis generates a number of values – factor loadings – which are the correlations between an indicator variable (item) and each factor (dimension) (Gorsuch, 1983). An indicator variable that measures a similar aspect would have a high correlation and thus a high loading on one particular factor and a low loading on others. For an instrument to demonstrate discriminant validity, an item needs to load 'significantly' onto one factor only and not 'significantly' onto others. Discriminant validity is the extent to which one latent factor discriminates from other latent factors (Farrell, 2010). According to Hair *et al.* (2006: 128), factor loadings of 0.3 and 0.4 are the minimal values acceptable to be regarded as 'significant' for sample sizes of 350 and 200 respectively.

A number of factor solutions were considered. Based on the extent of factor loadings (loadings of ≥ 0.4 were regarded as significant), as proposed by Hair *et al.* (2006: 128), the presence of cross-loadings and the interpretation of factors were used as guidelines to delete those items that did not demonstrate sufficient evidence of discriminant and construct validity (Hair *et al.,* 2010: 118). In this study, items that did not cross-load, that loaded significantly onto one factor only and have factor loadings of ≥ 0.4, were considered significant and therefore provided evidence of discriminant and construct validity. Items that loaded poorly or cross-loaded onto more than one factor with a loading of 0.4 or more were discarded because this is an indication of poor discriminant validity (Hair *et al.*, 2010: 118).

Item deletion is a common and integral part of scale development. The most common criteria used by researchers when deciding whether items should be retained or deleted are item loadings and

cross-loadings on factors. Other considerations include the smallest contribution to internal consistency of the instrument scores and low conceptual consistency with other items on the factor (Worthington & Whittaker, 2006). According to DeVellis (2003) and Worthington and Whittaker (2006), researchers often need to do a trade-off between brevity (a shorter scale, which is less of a burden to respondents) and reliability (a longer scale). Longer scales are typically more reliable.

iii)   **Reliability**

Reliability refers to the extent to which the individual indicators all measure the same unidimensional variable. According to Cooper and Schindler (2007), measuring reliability means assessing consistency between multiple measurements of a variable to make sure that responses are not too varied. In this study, **Cronbach's coefficient alpha (α)** was used to measure the internal consistency of each of the five factors of the measurement instrument identified in the EFA, using SPSS for Windows. Coefficient alpha can range between 0.0 and 1.0, but Nunnally's (1978) recommendation of an alpha of 0.7 is widely accepted by researchers as the minimum acceptable standard to demonstrate internal consistency (see also Hair *et al.,* 2010: 695; Hinkin, 1995: 978). Therefore, in this study, a Cronbach's alpha coefficient of greater than 0.7 was regarded as reliable. See a detailed discussion of *reliability* in §5.4.1.2.

iv)   **Construct validity and model fit**

The remaining items were subjected to **confirmatory factor analysis (CFA)** and the potential reasons for inadequate *fit* inspected as an additional assessment of *construct validity*, using **structural equation modelling (SEM)**. See a detailed discussion of CFA in §5.4.2.3, of *model fit* in §5.4.1.4, of construct validity in §5.4.1.1, and of SEM in §5.4.2.2.

A sample size of 200 is generally considered adequate for SEM research with latent variables (Kenny, 2014). The number of factors and the items loading onto each factor must be known before structural equation modelling (SEM) can be performed. Therefore, an EFA was performed first in Wave 1 before implementing SEM. After satisfying the preconditions of SEM, a **CFA** was conducted to enhance confidence in the structure and psychometric properties of the new instrument to measure corporate reputation from the perspective of the clients of service-oriented industries. The *construct validity* of the measurement model, which specifies the indicators for each construct, was assessed using CFA. In CFA, the items are 'forced' to be a measure of a factor (Hair *et al.*, 2006: 772, 779). LISREL 8.80 was used for this purpose.

CFA assesses the construct validity of the measurement model by evaluating the extent to which the measured items reflect the theoretical dimensions of the instrument that these items are designed to measure (Hair *et al.,* 2010: 708). The better the *fit* between the draft instrument and the measurement model, the better the construct validity. In Sample 1 this analysis included an **inspection** of the **squared multiple correlations (item reliability of individual items)**, the **standardised residuals** and the **modification indices**. The same measurement model was then replicated in Sample 2. Modification indices refer to the amount with which the overall Chi-square

value would be reduced by freeing (estimating) any single particular path that is not currently estimated (the impact of the Chi-square if one adds or deletes any path). See a description of *squared multiple correlations*, *standardised residuals* and *modification indices* in §5.4.1.4.

CFA was conducted on the data from Sample 1 and replicated with Sample 2. Due to a concern that one may be capitalising on chance by replicating a model based on the data from Sample 1 and Sample 2, it was decided to collect more data to re-assess the construct validity of the five-dimensional measurement model of client-based corporate reputation.

7.10.5.2 Data collection and quantitative analysis (Wave 2)

i)   **Instrument re-operationalisation**

Before the second wave of data collection commenced, new items were added to fit the operationalisation of the five factors better. Clark and Watson (1995) concur that good scale construction is an iterative process involving several periods of item writing. Anderson and Gerbing (1988) emphasised that re-specification should be based on theoretical and content considerations. Construct validity should be ensured by the use of more samples (Hair *et al.* 2010), as was done in this study with the three waves of data collection and analysis.

As recommended by Bollen (1989), it was ensured that each construct (dimension) was measured by at least three items. The questionnaire used for the second wave of data collection thus contained 35 items, again linked to a 7-point Likert scale (see §8.4.1.1 – §8.4.1.5 for the operationalisation of the Wave 2 Instrument). It was decided to describe and explain the operationalisation of the Wave 2 and Wave 3 instruments in Chapter 8 (Empirical Results) as this was part of – and flowed from – the findings from the analysis of Wave 1.

Respondents from the same database (the other half of the USB and USB-ED database), who were not part of the sample used for the first data collection phase, were asked about their most frequently used airline and bank.

ii)   **Construct validity, convergent validity, discriminant validity, reliability and model fit**

The first step in the Wave 2 data analysis procedure was to conduct a ***confirmatory factor analysis (CFA)*** of the 35-item measurement model for the ***Airline sample***. How well data fits a proposed theoretical model is an indication of construct validity.

As the data demonstrated mild violations of multivariate normality, a ***Robust Maximum Likelihood Confirmatory Factor Analysis*** was conducted using LISREL 8.80. The resultant output was inspected for ***admissibility*** (particularly the completely standardised solution) and for sources of poor ***fit***. This analysis included an inspection of the ***squared multiple correlations (item reliability of individual items)***, the ***standardised residuals*** and the ***modification indices***. Based on the modification indices, a number of items were removed and the remaining items again subjected to ***confirmatory factor analysis***.

Both the **p-values** and the **Root Mean Square Error of Approximation (RMSEA) statistic** were inspected to see whether the data fitted the Airline model. However, as pointed out by Farrell and Rudd (2009), one cannot rely on fit indices alone to assess a model's construct validity. See a discussion of fit indices in §5.4.1.4.

If the *p*-value of the **Chi-square statistic** is less than or equal to alpha, the result is statistically significant and the null hypothesis is rejected, which implies imperfect model fit. A *p*-value of 0.05 or less rejects the null hypothesis at the 5% level (Diamantopoulos & Siguaw, 2000). The traditional *Chi-square* test of exact fit, however, presents several shortcomings, which reduce its reliability. 'Exact fit' means that no significant differences between covariance matrices are allowed (Martínez-López *et al.*, 2013). A perfect fit thus becomes nearly impossible in marketing research.

Some SEM experts (Jöreskog & Sörbom, 1993) suggested that the *chi-square* should not be used as a formal test but as a descriptive fit index. Steiger (2007) questioned its value on two grounds:

i) A perfect fit hypothesis is irrelevant as models are restrictive; thus, the probability of a perfect fit is zero.

ii) It is not necessarily good evidence of the model fit, even when testing results are non-significant, as it could be due to a lack of ability to detect model misspecification (see also Chin, 1998).

The Chi-square statistic is discussed comprehensively in §5.4.1.4.

The **RMSEA** statistic is generally regarded as one of the most informative fit indices, which is increasingly being used in marketing and business research while the use of the *chi-square* has been reduced significantly (Martínez-López *et al.,* 2013). In SEM, the general approach used is as follows: the null hypothesis is that there is a perfect fit between the data and the model. RMSEA values of ≤ 0.05 are indicative of good (close) fit while values of between 0.05 and 0.08 indicate reasonable fit (Browne & Cudeck, 1992; Diamantopoulos & Siguaw, 2000; Schumacker & Lomax, 2010). MacCallum *et al.* (1996) argued against the 'exact fit' approach, advocated a 'close-fit' approach and proposed a 'non-close fit' approach, based on the *RMSEA* index, while others (Martínez-López *et al.,* 2013) argued in favour of a 'contingent approach' regarding the use of threshold cut-offs to assess model fit, avoiding universal cut-off values. Hair *et al.* (2010: 667) concurred with this view and argued that the RMSEA statistic should be read in conjunction with other measures and that an absolute cut-off is inadvisable. See §5.4.1.4 for a comprehensive description of the *RMSEA* fit index.

The **expected cross-validation index (ECVI)** focuses on overall error, namely the difference between the population covariance matrix and the model fitted to the sample. ECVI measures the discrepancy between the fitted covariance matrix in the analysed sample, and the expected covariance matrix that would be obtained in another sample of equivalent size (Diamantopoulos & Siguaw, 2000). See a discussion of the *ECVI* in §5.4.1.4.

The **critical N (CN)** statistic shows the size that a sample must reach in order to accept the fit of a given model on a statistical basis. A 'rule of thumb' indicating that a model is an adequate representation of the data is *CN* > 200. This number has, however, been challenged in the literature and researchers warn that it should be used with caution (Diamantopoulos & Siguaw, 2000). See a discussion of *CN* in §5.4.1.4.

In addition to the **fit indices**, the **factor loadings** were also inspected for evidence of convergent validity. Another way to assess convergent validity is to assess the **average variance extracted (AVE)** – the amount of variance that is captured by the construct as opposed to the amount of variance due to measurement error. If the average variance extracted (AVE) > 0.5, it implies that the amount of variance in the indicators exceeds the variance due to measurement error.

A **comparison** was then made between the **average variance extracted (AVE)** and the **squared correlation between each pair of constructs** (shared variance) in the measurement model. According to Fornell and Larcker (1981), this comparison provides evidence of discriminant validity. To show evidence for discriminant validity, *AVE* estimates for two factors should be greater than the square of the correlation (shared variance) between the two factors (Fornell & Larcker, 1981; Hair *et al.*, 2010: 695, 779). See a discussion on *AVE* and squared correlations in §5.4.1.1 (construct validity) and specifically under subsections ii) Convergent validity and iii) Discriminant validity.

The **same assessments** were conducted on the data from the **Bank sample**.

The process to develop a reflective measurement instrument includes an assessment of whether the multiple items that make up the scale can be regarded as alternative indicators of the same construct. This evaluation to assess unidimensionality is done by assessing the **internal consistency and external consistency** criteria of unidimensionality implied by the multiple-indicator measurement model with **CFA** (Bentler, 1985; Gerbing & Anderson, 1988; Jöreskog & Sörbom, 1984).

Both the **internal consistency reliability (Cronbach's Alpha)** and the **composite reliability** of all the underlying dimensions in the two samples (Bank and Airline) were measured. It is recommended that all scores be > 0.7 for both *Cronbach's Alpha* and *composite reliability* (Hair *et al.*, 2006: 778). See a detailed discussion on reliability in §5.4.1.2.

Even in the case of a favourable assessment of the construct validity of an instrument, it is advisable to replicate the results in a new sample (Malhotra *et al.*, 1999: 172), which was done in this study.

7.10.5.3 Data collection and quantitative analysis (Wave 3)

i) **Instrument re-operationalisation**

A third effort was made to re-confirm the construct validity of the now 19-item instrument to measure client-based corporate reputation in the service industry by sending the instrument to a third group of 8 047 respondents – the entire population of a commercially-acquired database of individuals.

ii) **Construct validity, convergent validity, discriminant validity, model fit, nomological validity, reliability and invariance**

The data generated in both the **Airline sample** and the **Bank sample** was again subjected to **confirmatory factor analysis (CFA)**. Significant loadings as a result of factor analysis would serve as evidence of the **convergent validity** and **construct validity** of the proposed instrument in both samples (Hair *et al.,* 2006: 777).

The fit of a measurement model provides further evidence of construct validity (Hair *et al.,* 2006: 776). The null hypothesis of a close fit was again empirically assessed for both the Airline and the Bank samples. The **p-value** of the test for a close fit as well as the **RMSEA fit statistic** were taken as strong evidence of construct validity.

To assess convergent validity, the **average variance extracted (AVE) for each dimension** was calculated for **both samples**. To assess discriminant validity, the **shared variance test** of Fornell and Larcker (1981) was used. Both sets of results provided strong evidence of both convergent and discriminant validity of the proposed new instrument in both samples.

When evaluating a construct's **nomological validity**, Churchill (1979) and Hair *et al.* (2006, 778) recommended that its position in a nomological net must be assessed. Based on the work of Selnes (1993), Nguyen and Leblanc (2001) and Helm (2007b), it was hypothesised that a high score on a scale that measures the underlying dimensions of corporate reputation will be positively related to *loyalty* in a nomological net. In addition, it was expected that a positive relationship between the scores on the underlying dimensions of corporate reputation and a one-item global score of corporate reputation would emerge. **Two scales** were used to assess nomological validity for both samples. It could be expected that a favourable reputation will be positively related to all the individual dimensions of corporate reputation.

Respondents were asked to assess their loyalty to the airline/bank they nominated by responding to the following statements in the first scale:

- I will continue to do with business with XYZ in the future
- I will never recommend XYZ to others (R)
- I will start using the services of another airline/bank soon (R).

The second scale consisted of a single item:

- XYZ has a favourable reputation.

Again, a positive relationship between this single-item score and the five individual dimensional scores of the proposed instrument would be regarded as evidence of nomological validity.

Both the ***internal consistency (Cronbach's Alpha)*** and the ***composite reliability*** of the instrument were calculated and the recommended 0.7 cut-off for both Cronbach's Alpha and *composite reliability* considered (Hair *et al.*, 2006: 778).

The validity of a measuring instrument is enhanced when it is able to replicate successfully in more than one sample. In this study, an attempt was thus made to 'cross-validate' the measurement model of the Airline sample in the Bank sample. The purpose was thus to assess whether the model was invariant across the two samples. If there is evidence of invariance across groups it will imply that measures in the measurement model have the same meaning in more than one group or population. ***Invariance testing*** thus addresses the question whether the measurement parameters of a proposed model or measuring instrument differ across two groups. The basic approach is to place increasingly stringent equality constraints or requirements on the model in a series of data analysis steps ranging from configural invariance to complete invariance (Steenkamp & Baumgartner 1998).

Based on the guidelines of Vandenberg and Lance (2000) and Steenkamp and Baumgartner (1998), the first step in the invariance assessment was to assess the *configural invariance* of the model in the Airline and Bank samples. Configural invariance only assesses the invariance of the factor structure of the model in the two samples and is a prerequisite for subsequent assessments and thus for increasingly stricter assessments of invariance (Vandenberg & Lance, 2000). The next step was to assess *weak invariance*. To prove weak invariance, a model in which the factor loadings are constrained to be equal in both groups must yield a close fit to the data. The next step was to assess *strong invariance*. The conclusion of strong invariance will depend on whether the intercepts on the model differ in the two samples. To assess *strict invariance,* the structure of the model must be the same across groups, the factor loadings of the model must be the same, the vector of regression intercepts must be the same and the measurement error variance-covariance matrix must be constrained to be the same in all groups. In the case of *complete invariance,* the structure of the model must be the same across groups, the factor loadings of the model must be the same, the vector of regression intercepts must be the same, the measurement error variance-covariance matrix must be the same, and the latent variable variance-covariance matrix must be constrained to be the same in all groups.

7.11   SUMMARY AND CONCLUSIONS

Chapter 7 covered the research methodology underpinning this study. Descriptions were provided of the research paradigm and approach, research methods and research domain, as well as the unit of analysis and the primary and secondary data sources. The process to develop the new instrument started with the generation of an item pool. After a refinement of the Draft Instrument by a panel of experts, a pre-test was done to ensure that the wording of both the cover letter and the questionnaire was clear and that the online survey performed well. Delimitations of the current study were described. Operational definitions of corporate reputation and its dimensions were given and each dimension was operationalised by explaining the origin of the items. The frames (databases of names) that were taken to represent the study population were explained, as well as the manner in which three surveys were administered in three Waves. The processes of data collection and preparation in order to refine, purify and replicate the measurement instrument during the three Waves were described. The statistical analyses performed in each of the three Waves to ensure construct validity – including unidimensionality, convergent validity, reliability, discriminant validity, nomological validity, model fit and invariance – were explained.

In Chapter 8, the empirical results are shown, including the statistical analyses that were performed in the three Waves. The findings of the study that are described in Chapter 8 are the result of the use of the most rigorous statistical analyses and techniques available.

CHAPTER 8

EMPIRICAL RESULTS

'It takes many good deeds to build a good reputation, and one bad one to lose it.'

- Benjamin Franklin

8.1   INTRODUCTION

In Chapter 7, the research paradigm and approach, research methods and research domain were described. The scope, delimitations and data sources were discussed. The approach and methodology used to identify the factors (dimensions) that clients take into account when they evaluate the corporate reputation of an organisation in the service industry were described. The evaluation of the Draft Instrument by a panel of experts was explained, as well as the pre-test that was done before commencement of the first round (Wave 1) of data collection. The dimensions of the Wave 1 Instrument were defined and operationalised (§7.10.4). The sampling method and processes followed to administer the questionnaires in three surveys (three Waves) were discussed in detail. The manner in which the data was collected and prepared in order to refine, purify and replicate the measurement instrument during the three Waves was explained. The statistical analyses performed in each of the three Waves to ensure construct validity – including unidimensionality, convergent validity, reliability, discriminant validity, nomological validity, model fit and invariance – were discussed.

This chapter focuses on the empirical findings of the data collection and analysis, which was done in three Waves as part of the process to develop an instrument to measure corporate reputation from the perspective of clients of organisations in the service industry.

The results of the exploratory factor analysis in Wave 1 to identify the underlying factors and to demonstrate discriminant and convergent validity are reported. The results of the analyses to isolate the reasons for poor fit, confirmatory factor analysis and the reliability tests for both samples are explained. The findings of the goodness-of-fit indices that were conducted for both samples to investigate construct validity are discussed. The subsequent steps in the purification process in Wave 2 are reported, including confirmatory factor analyses of the Airline and Bank samples. The outcome of the inspection of both samples for reliability is discussed, as well as the fit indices. Evidence of convergent and discriminant validity is shown. The results of the statistical analyses in Wave 3, the fit indices, which reconfirm the convergent and discriminant validity of the 19-item instrument, as well as evidence of nomological validity, reliability and invariance, are presented and explained in detail.

8.2   WAVE 1: DATA COLLECTION

In Wave 1, data was collected by means of an online survey. A total of 1 038 usable responses were received, which were used for quantitative analysis.

8.2.1   Wave 1: Administering of questionnaires, response rate and data preparation

In the first wave of data collection, questionnaires were administered to 8 816 respondents, which represented half of the entire population of the first database (USB and USB-ED database). The sample was split in two, and 4 408 questionnaires were distributed to potential clients of banks and 4 408 to potential clients of airlines. In total, 610 responses were received from the Bank sample and 621 from the Airline sample. Out of the 610 bank respondents, 13 indicated that they had not made use of any bank in the 12 months prior to the survey date, and out of the 621 airline respondents, 179 indicated they had not made use of an airline during that period. These respondents were discarded. Data from 596 bank clients and 442 airline clients (1 038 usable questionnaires in total) were thus retained and analysed. In both samples, more than 95% of the respondents were between 21 and 60 years of age and in both samples, 65% of the respondents were male. All the provinces of South Africa were represented in the samples, with the majority of people living in Gauteng and the Western Cape. The effective sample size and response rate of each sub-sample are listed in Table 8.1 below.

Table 8.1: Sample size and response rate (Wave 1)

	Banks	Airlines	Total
Questionnaires distributed	4408	4408	8816
Questionnaires returned	610	621	1231
Number of non-clients and those with missing data (questionnaires not usable)	14	179	193
Effective sample size (usable questionnaires)	596	442	1038
Response rate	14%	14%	14%
Percentage usable client questionnaires	14%	10%	12%

The primary purpose of this study was to develop an instrument to measure client-based corporate reputation in the service industry. The approach followed was to use two well-known sectors in the service industry, namely banks and airlines, as representative of the service industry, although no claims are made that clients of organisations in service sectors other than these two would evaluate corporate reputation in the same way. An initial attempt was made to identify the generic dimensions common to the corporate reputation of the two chosen sectors, namely banks and airlines. Thus, to ensure that the instrument was not sector specific in the first round (referred to as Wave 1), the two data sets (1038) were merged, randomised and split in two equal parts of 519 each before the data analysis commenced. The first sample of 519 (Sample 1) was used to purify and refine the instrument and the second sample of 519 (Sample 2) was used to replicate the

results. Some researchers consider a sample of 500 preferable when performing both exploratory and confirmatory analysis, while others regard 300 to be sufficient and 150 to be the minimum for scale development purposes (Noar, 2003: 626; Rubio *et al.*, 2001). The available data comfortably exceeded all these thresholds.

8.2.2 Wave 1: Administering of the instrument

The Wave 1 Instrument administered contained 78 items (indicators or manifest variables), measuring what was expected to be 11 dimensions (shown in Table 8.2). The Wave 1 Instrument was based on an in-depth study of corporate reputation literature and a qualitative investigation (focus group discussion). The Wave 1 Instrument was finalised after an inspection by a panel of experts – international academics and senior practitioners in the field of corporate reputation. See §7.10.1 to §7.10.4 for a detailed description of the generation of the item pool and the operationalisation of the Wave 1 Instrument.

Table 8.2: The 11 dimensions and 78 items of the Wave 1 Instrument

Dimensions	Codes	Items
Emotional appeal	EMA1	I have a good feeling about my bank/my airline
	EMA2	I admire my bank/my airline
	EMA3	I respect my bank/my airline
	EMA4	I trust my bank/my airline
	EMA5	I am proud to be associated with my bank/my airline
	EMA6	I like my bank/my airline
Service quality	SER1	My bank/my airline offers high-quality services
	SER2	My bank/my airline stands behind its services (after-sales service)
	SER3	My bank/my airline develops innovative services
	SER4	My bank/my airline offers services that are good value for money
	SER5	My bank/my airline offers services that fit my needs
	SER6	My bank/my airline offers reliable services
	SER7	My bank/my airline regularly introduces new services
	SER8	My bank/my airline is convenient to do business with
	SER9	My bank/my airline offers solutions that saves me time
	SER10	My bank/my airline offers value for money
Financial performance	FIP1	My bank/my airline attracts good investors
	FIP2	My bank/my airline is profitable
	FIP3	My bank/my airline outperforms its competitors financially
	FIP4	My bank/my airline looks like a company with good prospects for the future
	FIP5	My bank/my airline appears to make financially sound decisions
Vision and leadership	VIL1	My bank/my airline responds well in a crisis (e.g. on negative publicity)
	VIL2	My bank/my airline has a clear vision of the future
	VIL3	My bank/my airline has excellent leadership
	VIL4	The leadership of my bank/my airline is held in high regard
	VIL5	My bank/my airline and I share a similar set of values
	VIL6	The public knows what my bank/my airline stands for
	VIL7	My bank's leadership is prominent

Dimensions	Codes	Items
Good employer	GEM1	My bank/my airline appears to be a good company to work for
	GEM2	My bank/my airline has skilled employees
	GEM3	My bank/my airline treats its employees well
	GEM4	My bank/my airline seems to pay attention to the needs of its employees
	GEM5	Employees seem to be satisfied with my bank/my airline
	GEM6	My bank/my airline seems to have talented employees
Corporate social responsibility	CSR1	My bank/my airline supports good causes
	CSR2	My bank/my airline conducts its business fairly, ethically and with integrity
	CSR3	My bank/my airline is committed to protect the environment
	CSR4	My bank/my airline is committed to social responsibility (social issues)
	CSR5	My bank/my airline participates in communities where it does business
	CSR6	My bank/my airline adheres to principles of good governance
	CSR7	My bank/my airline competes fairly in the marketplace
	CSR8	My bank/my airline adheres to responsible advertising practices
Client orientation	COR1	My bank/my airline has built a good relationship with its clients
	COR2	My bank/my airline treats its clients fairly
	COR3	My bank/my airline responds to its clients' needs
	COR4	My bank/my airline treats its clients with respect
	COR5	My bank/my airline seems to care about all of its clients regardless of how much money they spend with them
	COR6	I am rewarded for my loyalty to my bank/my airline
	COR7	I feel safe/secure when using my bank's/my airline's services
Quality of management	QUM1	My bank's/my airline's management is dynamic
	QUM2	My bank/my airline has good structures and systems in place
	QUM3	My bank's/my airline's managers are accessible
	QUM4	My bank/my airline provides frequent communication that is valuable to me
	QUM5	My bank/my airline listens to me
	QUM6	My bank/my airline has good management in place
Market leadership	MAL1	My bank/my airline is a market leader
	MAL2	My bank/my airline takes advantage of market opportunities
	MAL3	My bank/my airline is a leader in its industry
	MAL4	My bank's/my airline's services are familiar to the public
	MAL5	My bank/my airline is a well-recognised brand
	MAL6	My bank/my airline is open and transparent in its communication
	MAL7	My bank's/my airline's communication and advertising is effective
	MAL8	My bank's/my airline's after-sales communication and response is adequate
Servicescape	SES1	My bank's/my airline's branches/outlets are conveniently located
	SES2	My bank's/my airline's branches/outlets are clean and tidy
	SES3	My bank/my airline delivers consistent service at all service points
	SES4	My bank/my airline offers services in a professional environment
	SES5	My bank's/my airline's online services are user-friendly
	SES6	My bank's/my airline's online services are effective
	SES7	I am satisfied with my bank's/my airline's service
Social engagement	SOE1	My bank/my airline engages with its stakeholders
	SOE2	My bank/my airline responds to the needs of communities
	SOE3	My bank/my airline reaches out to its social environment

8.3   WAVE 1: QUANTITATIVE ANALYSIS TO PURIFY AND REFINE THE INSTRUMENT

8.3.1   Wave 1: Bartlett's Test and Measure of Sampling Adequacy

Bartlett's Test of Sphericity was utilised to assess whether factor analysis would be appropriate. Non-normality would be demonstrated if samples originated from non-normal distributions (see discussion in §7.10.5.1) (Bartlett, 1937; Snedecor & Cochran, 1989). The result of the test confirmed that factor analysis would indeed be appropriate because the significance was < 0.05, as recommended by Field (2005). The result is shown in Table 8.3 below.

The Kaiser-Meyer-Olkin (KMO), also called the Measure of Sampling Adequacy (MSA), is an index, which is used to examine the appropriateness of factor analysis. KMO values vary between 0 and 1 (see discussion in §7.10.5.1). In this study, a KMO of 0.972 was returned (see Table 8.3) and the conclusion was drawn that conducting a factor analysis would be appropriate (as recommended by Hair *et al.,* 2010: 104).

The results of both Bartlett's Test and the KMO (Table 8.3) confirmed that there was sufficient correlation (covariance) in the data for factor analysis to proceed.

Table 8.3: KMO and Barlett's Test of Sphericity (Wave 1)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.972
Bartlett's Test of Sphericity	Approximate chi-square	18975.778
	Df	595
	Level of significance	0.000

8.3.2   Wave 1: Exploratory factor analysis (EFA) (Sample 1)

Exploratory factor analysis (EFA) was conducted with the data from Sample 1, using SPSS 18.0 for Windows, to identify the underlying dimensions (factors) that explained the correlations among the set of items. A primary purpose of EFA is to reduce the data, and thus to start purifying the instrument. Another purpose was to assess the discriminant validity of the identified factors (Farrell, 2010; Farrell & Rudd, 2009).

The number of factors and the items loading onto each factor must be known before structural equation modelling (SEM) can be performed (Hair *et al.*, 2006). Therefore, an EFA was completed first before a CFA was undertaken, as explained in detail in §7.10.5.1.

The factors were rotated to transform the factor matrix into one that can be better interpreted. Ideally, one would like to see that each item (indicator variable) has a significant loading onto only one factor (Field, 2005). A Principal Axis Factor (PAF) with a Direct Quartimin Oblique (Orthogonal) rotation of the 78 Likert scale statements was conducted on the data collected from Sample 1 (519 respondents), as recommended by Field (2005).

To identify the number of factors (dimensions) to extract, Eigenvalues, the Percentage of Variance Explained, and the individual factor loadings were considered.

Factor analysis generates values – factor loadings – that are the correlations between an item and each dimension (factor). For an instrument to demonstrate discriminant validity, an item ideally needs to load onto one factor only and not onto others. Factor loadings of 0.3 and 0.4 are the minimal values acceptable for sample sizes of 350 and 200 respectively (Hair *et al.,* 2010: 117).

A number of factor solutions were considered before the number of factors (dimensions) and items underlying the dimensions could be identified (Hinkin, 1995; Worthington & Whittaker, 2006). In this study, items that did not cross-load, that loaded significantly onto one factor only and that had factor loadings of ≥ 0.4 were considered significant and therefore provided evidence of both discriminant and thus construct validity.

The extent of factor loadings (loadings of ≥ 0.4 were regarded as significant), as proposed by Hair *et al.* (2010: 117), was the first criterion for items to be retained or discarded. Items cross loading onto more than one factor with a loading of 0.4 or more was another guideline for the deletion of items that did not demonstrate sufficient evidence of discriminant and construct validity (Hair *et al.,* 2010: 117).

Table 8.4 shows the individual factor loadings (pattern matrix) for each of five dimensions (latent variables/latent factors/constructs) extracted. All factor loadings exceeded 0.4 and were considered to be significant. The five latent factors (dimensions) that emerged were given temporary names at this stage because these dimensions differed from those operationalised for the purpose of Wave 1 and because some items originally categorised under certain dimensions now emerged under different dimensions. The new dimensions were thus named *Latent factor EA, Latent factor SE, Latent factor CP, Latent factor GE* and *Latent factor SP*.

Table 8.4: Individual factor loadings (pattern matrix) of five dimensions (Wave 1)

	Pattern matrix[a]				
	Factor				
	1	**2**	**3**	**4**	**5**
	Latent factor EA	**Latent factor SE**	**Latent factor CP**	**Latent factor GE**	**Latent factor SP**
EMA6	.891	-.020	-.015	.061	.084
SES7	.880	.017	.076	-.009	.077
EMA5	.772	.071	-.006	-.078	.039
SER10	.754	.135	.055	-.109	-.118
EMA2	.741	.028	-.144	-.039	-.048
EMA1	.740	-.066	-.118	-.088	.111
COR2	.734	.058	-.008	-.046	.090
SER4	.722	.135	-.055	-.046	-.087
EMA4	.716	-.021	-.058	-.019	.145
EMA3	.685	-.043	-.177	-.081	.054
SER5	.609	.082	.069	-.029	.284
MAL1	.583	.079	-.116	.057	.171
VIL5	.560	.197	-.126	-.039	.035
CSR4	-.086	.946	-.037	.005	.012
CSR1	.077	.862	-.014	.021	-.048
SOE2	.147	.785	.038	-.045	-.027
CSR5	.131	.735	.016	-.061	-.004
SOE3	-.075	.705	-.052	-.035	.141
CSR3	.025	.669	-.116	-.081	.006
FIP2	-.074	.098	-.904	.092	.040
FIP5	.084	.016	-.753	-.061	.076
FIP1	-.070	.152	-.568	-.090	.192
QUM6	.254	.010	-.541	-.270	-.096
CSR7	.192	.041	-.524	-.111	.086
VIL4	.220	-.020	-.519	-.331	-.078
FIP3	.188	.155	-.510	-.051	-.015
VIL3	.294	.069	-.496	-.180	-.048
GEM3	-.124	.132	-.023	-.804	.067
GEM5	.046	.082	-.026	-.783	-.079
GEM1	.144	-.067	-.093	-.680	.030
GEM4	.020	.029	.050	-.649	.142

Pattern matrix[a]					
	Factor				
	1	**2**	**3**	**4**	**5**
	Latent factor EA	**Latent factor SE**	**Latent factor CP**	**Latent factor GE**	**Latent factor SP**
SES6	.159	.033	-.011	-.123	.638
SES5	.103	.076	.015	-.143	.547
MAL5	.092	.053	-.121	-.018	.525
SES2	.162	.052	-.147	-.049	.500

a.   Rotation converged in 8 iterations.

After the EFA had been conducted, five latent factors (dimensions), measured by 35 items (compared with 11 factors and 78 items at the start of the process) emerged (see Table 8.5).

Table 8.5: The 35 items (categorised with their 11 original dimensions)

emerging after EFA (Wave 1)

Dimensions	Codes	Items
Emotional appeal	EMA1 EMA2 EMA3 EMA4 EMA5 EMA6	I have a good feeling about XY I admire XY I respect XY I trust XY I am proud to be associated with XY I like XY
Service quality	SER4 SER5 SER10	XY offers services that are good value for money XY offers services that fit my needs XY offers value for money
Financial performance	FIP1 FIP2 FIP3 FIP5	XY attracts good investors XY is profitable XY outperforms its competitors financially XY appears to make financially sound decisions
Vision and leadership	VIL3 VIL4 VIL5	XY has excellent leadership The leadership of XY is held in high regard XY and I share a similar set of values
Good employer	GEM1 GEM3 GEM4 GEM5	XY appears to be a good company to work for XY treats its employees well XY seems to pay attention to the needs of its employees Employees seem to be satisfied with XY
Corporate social responsibility	CSR1 CSR3 CSR4 CSR5 CSR7	XY supports good causes XY is committed to protect the environment XY is committed to social responsibility (social issues) XY participates in communities where it does business XY competes fairly in the marketplace
Client orientation	COR2	XY treats its clients fairly

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Dimensions	Codes	Items
Quality of management	QUM6	XY has good management in place
Market leadership	MAL1 MAL5	XY is a market leader XY is a well-recognised brand
Servicescape	SES2 SES5 SES6 SES7	XY's branches/outlets are clean and tidy XY's online services are user-friendly My XY's online services are effective I am satisfied with XY's service
Social engagement	SOE2 SOE3	XY responds to the needs of communities XY reaches out to its social environment

The five-factor solution explained 74.9% of the variation in the data (see Table 8.6 below), and all five factors returned Eigenvalues exceeding 1.

Eigenvalues quantify the variance encapsulated by the factor. Eigenvalues greater than 1.0 are considered significant, whereas factors with Eigenvalues of < 1.0 are considered insignificant and are often discarded (Hair *et al.*, 2010: 109). Thus, only factors with an Eigenvalue > 1.0 were retained.

An initial Eigenvalue of 20.271 was returned for Factor 1 (*Latent factor EA*). Factor 1 initially explained 57.917% of the variance in the data, while the other four factors explained 17.01% of the variance. The initial Eigenvalue for Factor 2 (*Latent factor SE*) was 2.265, for Factor 3 (*Latent factor CP*) 1.445, for Factor 4 (*Latent factor GE*) 1.165 and for Factor 5 (*Latent factor SP*) 1.078. The Eigenvalues and Percentage of Variance Explained are reported in Table 8.6.

Table 8.6: Variance and Eigenvalues of the 5-factor structure (Wave 1)

Factor	Initial Eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings[a]
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total
1 (EA)	20.271	57.917	57.917	19.989	57.112	57.112	17.268
2 (SE)	2.265	6.470	64.387	2.004	5.725	62.837	13.378
3 (CP)	1.445	4.128	68.515.	1.173	3.352	66.189	13.046
4 (GE)	1.165	3.328	71.842	0.820	2.343	68.532	13.534
5 (SP)	1.078	3.079	74.922	0.732	2.090	70.622	8.570

To assess a measurement model, the validity and reliability of the items used to represent the dimensions (constructs) are determined. *Validity* reflects the extent to which an item actually measures what it is supposed to measure while *reliability* refers to the consistency of measurement (the extent to which an item is free of random error) (Diamantopoulos & Siguaw, 2000).

As Table 8.7 shows, the Cronbach's Alpha coefficient for all five factors was well above the recommended cut-off point of 0.7 (Nunnally, 1978). All five factors (dimensions) were therefore considered to be reliable.

Table 8.7: Reliability of the instrument (Sample 1) (Wave 1)

Dimensions	Cronbach's Alpha coefficient
Latent factor EA	0.971
Latent factor SE	0.940
Latent factor CP	0.947
Latent factor GE	0.880
Latent factor SP	0.836

The evidence reported in Tables 8.4, 8.6 and 8.7 confirms the discriminant validity and the reliability of the items used to measure the proposed five dimensions of corporate reputation. The evidence of both discriminant validity and reliability demonstrates construct validity.

8.3.2   Wave 1: Confirmatory factor analysis (CFA)

CFA was performed as a second factor analysis in Wave 1 to enhance confidence in the structure and psychometric properties of the new instrument to measure corporate reputation from the perspective of the clients of organisations in services. Before proceeding with CFA, a multivariate normality assessment was conducted on the 35 items that were extracted during factor analysis. The same data (Sample 1, comprising 519 responses) was used. The results are shown in Table 8.8.

Table 8.8: Test of multivariate normality for continuous variables (Wave 1)

Relative multivariate kurtosis = 1.377							
Skewness			**Kurtosis**			**Skewness and kurtosis**	
Value	**Z-score**	**p-value**	**Value**	**Z-score**	**p-value**	**Chi-square**	**p-value**
246.015	74.635	0.000	1783.386	33.967	0.000	6724.105	0.000

The p-value of 0.000 is an indicator that the data is not normally distributed. Therefore, it was not appropriate to use Maximum Likelihood (ML) estimation in SEM. The appropriate estimation for this situation is Robust Maximum Likelihood and in particular, the interpretation of the Satorra-Bentler scaled chi-square statistic (Satorra & Bentler, 2001).

After the CFA of the 35 items was conducted, potential reasons for inadequate fit were explored. In Sample 1, this analysis included an inspection of the squared multiple correlations (item reliability of individual items), the standardised residuals and the modification indices.

8.3.3   Wave 1: Evaluation of model fit of Sample 1 and Sample 2

The purpose of assessing a model's overall fit is to determine the degree to which the model as a whole is consistent with the empirical data (Diamantopoulos & Siguaw, 2000). Before making any judgments on how well the model fits the empirical data, notice should be taken that the evaluation of model fit is not straightforward and no consensus exists in the literature on what constitutes a 'good fit' (Tanaka, 1993; Schermelleh-Engel, Moosbrugger & Müller, 2003: 24). Because there is no single statistical significance test for SEM that identifies a correct model given the sample data, multiple criteria should be taken into account. Only one goodness-of-fit measure, i.e. the X^2, has an associated significance test (Schermelleh-Engel *et al.*, 2003: 31). All the SEM fit measures are descriptive. Table 8.9 provides a brief overview of the (SEM) fit indices used in this study (see also detailed discussion of the indices in §5.4.1.4).

Table 8.9: A description of the fit indices used in this study

Fit index	Norms
Chi-square (X^2) and X^2/df	If the model matches the data perfectly, the chi-square statistic (X^2) = 0. A statistically significant chi-square causes rejection of the H_0, implying imperfect model fit. A p-value of ≤ 0.05 rejects the H_0 at the 5% level (Diamantopoulos & Siguaw, 2000). If the p-value > alpha, the H_0 is not rejected. In this case, the result is not statistically significant. A good model fit would provide an insignificant result at a 0.05 threshold (Barrett, 2007). The problem with the X^2 is that with increasing sample size and a constant number of degrees of freedom, the X^2 increases, which may lead to a rejection of valid models, based on a significant X^2 (Schermelleh-Engel *et al.,* 2003). Jöreskog and Sörbom (1993) went as far as to suggest that the X^2 should not be used as a formal test statistic but merely as a descriptive goodness-of-fit index. For good model fit, the ratio X^2/df should be as small as possible (between 2 and 3) to indicate 'good' or 'acceptable' fit. However, the problem of sample size dependency cannot be eliminated (Bollen, 1989: 278).
Satorra-Bentler Chi-square	Structural equation modelling (SEM) relies strongly on goodness-of-fit chi-square statistics to assess the adequacy of hypothesised models to represent observed relationships. It is well known that multivariate non-normality inflates overall goodness-of-fit test statistics (Kaplan, 2000). Scaling corrections to improve the chi-square approximation of goodness-of-fit test statistics in smaller samples, large models and non-normal data was proposed by Satorra and Bentler (1988, 2001). They developed a set of corrected normal-theory test statistics that adjust the goodness-of-fit chi-square for bias due to multivariate non-normality (if an asymptotic covariance matrix is provided) (Jöreskog, 2004). To correct the regular chi-square value for non-normality, the estimation of a scaling correction factor (*c*) is required, which reflects the amount of average multivariate kurtosis distorting the test statistic in the data being analysed. One divides the goodness-of-fit chi-square value for the model by the scaling correction factor to obtain the Satorra-Bentler scaled chi-square (Bryant & Satorra, in press 2014). LISREL 8 bases the Satorra-Bentler chi-square value on a rescaling of the normal-theory-weighted least squares (NTWLS) chi-square (Jöreskog, Sörbom, Du Toit & Du Toit, 2001).
Root mean square error of approximation (*RMSEA*)	According to Schermelleh-Engel *et al.* (2003: 36) and Kaplan (2000: 111), the usual test of a null hypothesis of exact fit is invariably false in practical situations (such as marketing studies) and will almost certainly be rejected if the sample size is sufficiently large. Therefore, a more sensible approach is advised. In SEM, the null hypothesis of exact fit is replaced by the null hypothesis of 'close fit' (Browne & Cudeck, 1993: 146). At a 5% level, an *RMSEA* value of ≤ 0.05 is indicative of a close fit, a value of between 0.05 and 0.08 is regarded as a reasonable (adequate) fit and values > 0.10 are not acceptable (Browne & Cudeck, 1993; MacCallum, Browne and Sugawara, 1996; Schumacker & Lomax, 2010; Steiger, 1990). A perfect fit (an *RMSEA* value of 0.0) is considered nearly impossible. The *RMSEA* is bounded below by zero. The lower boundary of the 90% confidence interval should contain 0 for exact fit and be ≤ 0.05 for close fit (Schermelleh-Engel *et al.,* 2003: 37).
Expected cross-validation index (*ECVI*)	The *ECVI* of Browne and Cudeck (1989, 1993) measures the discrepancy between the model-implied covariance matrix in the analysed sample and the expected covariance matrix of another sample of the same size (Jöreskog & Sörbom, 1993: 120). Thus, ECVI measures how well a model fitted to the calibration sample would perform in comparable validation samples (Kaplan, 2000). The model with the smallest *ECVI* value is then chosen as representing the greatest potential for replication (best fit). The 'other models' used for comparison purposes are the independence model and the saturated model. A hypothesised model will fall between the independence model and the saturated model (Diamantopoulos & Siguaw, 2000). The *ECVI* range is > 0 (small is good) (Browne & Cudeck, 1993).
Critical N (CN)	A 'rule of thumb' indicating that a model is an adequate representation of the data is *CN* > 200. This number has, however, been challenged in the literature and should be used with caution (Diamantopoulos & Siguaw, 2000: 11-12).

Source: Compiled by researcher from sources indicated in the table.

As mentioned in the paragraph above, no well-established guidelines for the conditions (values) constituting an adequate fit exist. Schermelleh-Engel *et al.* (2003: 52-53), however, argued that 'some rules of thumb' do apply, which are 'quite arbitrary' and which 'should not be taken too seriously'. Fit indices may be affected by model misspecification, the effects of violation of normality and independence, as well as estimation methods. Table 8.10 provides a summary of guidelines on how to evaluate fit indices.

Table 8.10: Model fit evaluation recommendations

Fit measure	Good (close) fit	Reasonable (acceptable) fit
X^2	$0 \leq X^2 \leq 2df$	$2df < X^2 \leq 3df$
p-value	$0.05 < p \leq 1.00$	$0.01 \leq p \leq 0.05$
X^2/df	$0 \leq X^2/df \leq 2$	$2 < X^2/df \leq 3$
RMSEA	$0 \leq$ RMSEA ≤ 0.05	$0.05 <$ RMSEA ≤ 0.08
p-value for test of close fit (RMSEA < 0.05)	$0.10 < p \leq 1.00$	$0.05 \leq p \leq 0.10$
Confidence interval (CI)	Close to RMSEA, left boundary of CI = 0.00	Close to RMSEA
ECVI	Smaller than ECVI for comparison model	

Source: Schermelleh-Engel *et al.,* 2003: 52.

The resultant fit indices of the measurement model in Sample 1 (see Table 8.11) suggest a reasonable fit (Satorra-Bentler χ^2 = 1177.79; χ^2/df ratio = 3.21; RMSEA = 0.0653; ECVI = 2.536). The same measurement model was then replicated in Sample 2. The fit indices were not only very similar, but also suggested a reasonable fit (Satorra-Bentler χ^2 = 1083.89; χ^2/df ratio = 2.95; RMSEA = 0.0613; ECVI = 2.350). The goodness-of-fit statistics of the final CFA analysis of Sample 1, as well as the replication phase with Sample 2, are shown in Table 8.11. An analysis of the fit statistics demonstrates that in neither of the two samples a close-fitting model was obtained. The RMSEA statistic indicated, though, that a reasonable fit was obtained for both samples. The statistics in general, including the CN values, indicated that further purification and development was necessary. The *p*-values for test of a close fit in both samples suggest that more scale development and scale purification was needed at this point.

Table 8.11: Goodness-of-fit statistics for Sample 1 and Sample 2 (Wave 1)

Goodness-of fit-indicator	Values (Sample 1)	Values (Sample 2)
Degrees of freedom	367	367
Satorra-Bentler scaled chi-square (χ^2)	1177.790	1083.885
X^2/df	3.21	2.95
Minimum fit function value	3.119	2.882
Population discrepancy function value (FO)	1.565	1.381
Root mean square error of approximation (RMSEA)	0.0653	0.0613
90% confidence level for RMSEA	(0.0611; 0.0695)	(0.0571; 0.0656)
p-value for test of close fit (RMSEA < 0.05)	0.000	0.000
Expected cross-validation index (ECVI)	2.536	2.350
Critical N (CN)	191.415	208.312

8.3.4   Wave 1: Refinement after CFA analyses (Sample 1 and 2)

After an analysis of the fit indices obtained from the LISREL software program, it was clear that some items did not perform as expected and that some had to be removed to improve the model fit. Based on an inspection of the squared multiple correlations, an inspection of the standardised residuals and an inspection of the modification indices, 11 items were removed after CFA analyses were performed on the data in Sample 1 and 2. The removal of these items kept the proposed five latent factors of corporate reputation intact (now measured by 24 items). The items discarded are shown in Table 8.12.

Table 8.12: Items discarded after the CFA analyses (Sample 1 and 2)

Items	Description
EMA3	I respect XY
SER4	XY offers services that are good value for money
SER5	XY offers services that fit my needs
SES2	My bank's / my airline's outlets (branches) are clean and tidy
FIP1	XY attracts good investors
FIP2	XY is profitable
VIL3	XY has excellent leadership
VIL5	XY and I share a similar set of values
GEM5	Employees seem to be satisfied with XY
CSR3	XY is committed to protect the environment
MAL5	XY is a well-recognised brand

8.4   WAVE 2: DATA COLLECTION

To confirm the construct validity of the instrument (measuring five dimensions), it was again subjected to empirical assessment (Wave 2). In Wave 2, data was again collected in the same way as in Wave 1 (by means of an online survey). A total of 844 usable responses were received.

8.4.1   Wave 2: Administering of questionnaires, response rate and data preparation

Respondents from the same database, who were not part of the sample used for the first data collection phase (i.e. the second half of the database), were asked to rate the corporate reputation of their most frequently used airline and bank. In total, 393 usable responses were received from the Airline sample and 451 from the Bank sample in Wave 2. Again, 98% of the respondents in the Airline sample and 95% in the Bank sample were between 21 and 60 years old. In the Airlines sample, 69% were male and in the Bank sample, 67% were male. All South African provinces were represented in the two samples. A summary of the questionnaires distributed, effective sample size and response rates is provided in Table 8.13.

Table 8.13: Sample size and response rate (Wave 2)

	Banks	Airlines	Total
Questionnaires distributed	4407	4407	8814
Questionnaires returned	460	490	950
Number of non-clients and those with missing data (questionnaires not usable)	9	97	106
Effective sample size (usable questionnaires)	451	393	844
Response rate	10%	11%	11%
Percentage usable client questionnaires	10%	9%	10%

8.4.2   Wave 2: Re-operationalisation of the instrument

After several statistical tests were conducted in Wave 1, items were deleted as described in §8.3.5. To improve the operationalisation of the Wave 2 Instrument, several items were reassigned to different latent factors (dimensions), some were reworded and 11 new items were added. According to Hair *et al.* (2010), a new data set should be obtained for further verification when new dimensions emerge or more than 20 of the items change, as was the case in this study (DeVellis, 2003). Clark and Watson (1995: 311-312) concurred with this and argued that good scale construction is an iterative process involving several periods of item writing.

A total of 35 items now described five rephrased latent factors (dimensions/latent constructs) of the instrument. Because these dimensions differed from those that were operasionalised in Wave 1, they were renamed. The five dimensions were named *Latent factor EA, Latent factor SE, Latent factor CP, Latent factor GE* and *Latent factor SP*. The dimensions were given provisional names because some items originating from other original dimensions (Wave 1) loaded onto different dimensions.

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One item – re-assigned from the *Market leadership* dimension – was reworded to suit the *Latent factor EA* dimension better. One item was re-assigned from the *Servicescape* dimension, one from the *Service quality* dimension and one from the *Client orientation* dimension to be measures of *Latent factor EA* (based on the EFA results in Wave 1). Three items from the *Corporate social responsibility* dimension in Wave 1 loaded onto the *Social engagement* dimension, now called *Latent factor SE*. The *Financial performance* dimension in Wave 1 was renamed *Latent factor CP* because of the nature of the items that loaded onto it. One *Quality of management* item and one *Corporate social responsibility* item was re-assigned to the new *Latent factor CP* dimension. One new item was added for the *Latent factor CP* dimension and one item – previously part of the *Vision and leadership* dimension – was reworded to reflect the operationalisation of the dimension better. Three new *Latent factor GE* items were added and one was reworded slightly. The *Servicescape* dimension was renamed to *Latent factor SP*. To capture the *Latent factor SP* dimension better, six new items were formulated and one item was brought back from the Wave 1 instrument, but in a reworded form to fit the operationalisation of the construct better. The questionnaire used for Wave 2 of data collection thus contained 35 items, again linked to a 7-point Likert scale (see the Wave 2 Instrument in Table 8.14). (See Appendices D and E for the randomised questionnaires that were distributed in Wave 2.)

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Table 8.14: The five dimensions and 35 items of the Wave 2 instrument

Dimensions	Codes	Items	New (X)
Latent factor EA	EMP1	I have a good feeling about XY	
	EMP2	I admire XY	
	EMP3	I trust XY	
	EMP4	I am proud to be associated with XY	
	EMP5	I like XY	
	EMP6	XY offers value for money	Re-assigned from *Service quality* dimension
	EMP7	XY treats its clients fairly	Re-assigned from *Client orientation* dimension
	EMP8	XY is a top company	Re-assigned from *Market leadership* dimension; reworded – previously 'market leader'
	EMP9	I am satisfied with XY's services	Re-assigned from *Servicescape* dimension
Latent factor SE	ENGAGE1	XY supports good causes	Re-assigned from *Corporate social responsibility* dimension
	ENGAGE2	XY is committed to social responsibility (social issues)	Re-assigned from *Corporate social responsibility* dimension
	ENGAGE3	XY responds to the needs of communities	
	ENGAGE4	XY actively participates in communities where it does business	Re-assigned from *Corporate social responsibility* dimension; word 'actively' included
	ENGAGE5	XY reaches out to its social environment	
Latent factor CP	PERFORM1	XY appears to make financially sound decisions	
	PERFORM2	XY has good management in place	Re-assigned from *Quality of management* dimension
	PERFORM3	XY competes fairly in the marketplace	Re-assigned from *Corporate social responsibility* dimension
	PERFORM4	The management of XY is held in high regard	Re-assigned from *Vision and Leadership* dimension; reworded – 'leadership' replaced by 'management'
	PERFORM5	XY outperforms its competitors financially	
	PERFORM6	XY has a sizeable market share	New item

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Dimensions	Codes	Items	New (X)
Latent factor GE	EMPLOY1	XY appears to be a good employer to work for	Reworded slightly; word 'company' replaced by 'employer'
	EMPLOY2	XY treats its employees well	
	EMPLOY3	XY seems to pay attention to the needs of employees	
	EMPLOY4	XY trains its employees well	New item
	EMPLOY5	XY has skilled employees	New item
	EMPLOY6	XY looks after the well-being of its employees	New item
Latent factor SP	SERVE1	XY's branches are neat and tidy / The service desks of XY are neat and tidy	Brought back from Wave 1 Instrument, but reworded – previously 'clean and tidy'
	SERVE2	XY's online services are user-friendly	
	SERVE3	XY's online services are effective	
	SERVE4	The branches of XY are conveniently located / The service desks that XY uses are conveniently located	New item
	SERVE5	XY's service is consistent at all branches / service points	New item
	SERVE6	XY's staff are accessible	New item
	SERVE7	Doing my banking online is easy / Booking a flight online is easy	New item
	SERVE8	If I experience a problem with XY's services, it is resolved quickly	New item
	SERVE9	Dealing with XY's staff is a pleasure	New item

In light of the changed Wave 2 Instrument, the operational definitions of the five dimensions were revisited in the section below.

8.4.2.1 Latent factor EA

Latent factor EA was redefined and operationalised in light of four items, which previously formed part of other dimensions than the original *Emotional appeal* that loaded onto this dimension, over and above the five original items retained for this dimension. One original item was deleted during instrument purification in Wave 1.

Latent factor EA – for the purpose of the Wave 2 Instrument – was defined as *the extent to which a client of an organisation has a good feeling about the organisation, admires, trusts and likes the organisation, and is proud to be associated with it. In addition, it is the extent to which a client judges that the organisation offers value for money and treats its clients fairly. It is also the extent to which a client is satisfied with the organisation's services and is of the opinion that it is a top organisation.*

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The nine items formulated to measure the construct *Latent factor EA* in the Wave 2 Instrument, as operationalised above, are listed in Table 8.14.

8.4.2.2   Latent factor SE

Items from two dimensions – *Social engagement* and *Corporate social responsibility* – collapsed into one and renamed *Latent factor SE* in Wave 2.

Latent factor SE was defined as *the extent to which a client evaluates his/her organisation as supporting good causes, being committed to the social responsibility (social causes), reaching out to its social environment, responding to the needs of communities and actively participating in communities where it does business.*

The five items formulated to measure the construct *Latent factor SE* in the Wave 2 Instrument, as operationalised above, are listed in Table 8.14.

8.4.2.3   Latent factor CP

A new dimension – *Latent factor CP* – was created because items from four different previous dimensions loaded onto this factor. Two of the items came from the dimension previously called *Financial performance,* one from *Quality of management,* one from *Corporate social responsibility* and one from *Vision and leadership.* Because of the variety of items that loaded onto this new dimension – now called *Latent factor CP* – and the one new item that was added, it was re-operationalised.

Latent factor CP, for the purpose of the Wave 2 Instrument, referred to *an evaluation by the client regarding the corporate performance of the organisation in terms of its fair competition in the marketplace, its sizable market share and its 'good' and highly regarded management, and in terms of the organisation outperforming its competitors financially and appearing to make financially sound decisions.*

The six items formulated to measure the construct *Latent factor CP* in the Wave 2 Instrument, as operationalised above, are listed in Table 8.14.

8.4.2.4   Latent factor GE

Although no new items loaded onto the original dimension *Good employer* it was renamed to be consistent with the renaming of the other factors in the Wave 2 Instrument. Three new items were formulated to represent this dimension in Wave 2, and one item was re-worded.

Latent factor GE, for the purpose of the Wave 2 Instrument, was defined as *the extent to which an organisation, from the perspective of a client, is a good employer to work for, seems to pay attention to the needs of its employees and looks after their well-being, treats and trains employees well, and has skilled employees.*

The six items formulated to measure the dimension *Latent factor GE* in the Wave 2 Instrument, as operationalised above, are listed in Table 8.14.

8.4.2.5 Latent factor SP

The original dimension *Servicescape* was renamed *Latent factor SP* as a result of the additional six items that were newly formulated to represent this dimension better. Three original items loaded onto this dimension, one of which was reworded slightly.

Latent factor SP was redefined as *the extent to which, according to a client of an organisation, the online services of the organisation are effective, user-friendly and easy to use. Furthermore, it is the extent to which a client judges that the physical environment in which the organisation does business is neat and tidy, conveniently located and consistent at all service points. It is also the extent to which a client judges that the staff is accessible and a pleasure to deal with, and that service problems are resolved quickly.*

The nine items formulated to measure the dimension *Latent factor SP* in the Wave 2 Instrument, as operationalised above, are listed in Table 8.14.

8.5   WAVE 2: QUANTITATIVE ANALYSIS: REFINEMENT OF THE INSTRUMENT

The scale purification during Wave 2 was based on the data collected from the Airline sample (393 respondents) and the Bank sample (451 respondents).

8.5.1   Wave 2: Airline sample

A confirmatory factor analysis (CFA) of the 35-item measurement model was performed for the Airline sample. How well a proposed theoretical model is consistent with the data, is an indication of construct validity. To assess the model fit in the Airline sample, the following null hypotheses and alternative hypotheses were formulated for the RMSEA fit index, which is regarded as appropriate to assess model fit:

Perfect fit

- H_0:   RMSEA = 0.0
- H_A: RMSEA ≠ 0.0

Close fit

- H_0:   RMSEA = ≤ 0.05
- H_A: RMSEA = > 0.05

As the data demonstrated mild violations of multivariate normality, a Robust Maximum Likelihood CFA was conducted, using LISREL 8.80. The resultant output was inspected for admissibility (particularly the completely standardised solution) and for sources of poor fit. This analysis included an inspection of the squared multiple correlations (item reliability of individual items), the

standardised residuals and the modification indices. Based on the modification indices, 16 items were removed (see Table 8.15). The remaining 19 items (see Table 8.16) were again subjected to a CFA for both the Airline and the Bank samples.

Table 8.15: Items removed after a second CFA for the Bank and Airlines samples (Wave 2)

Dimensions	Codes	Items
Latent factor EA	EMP6	XY offers value for money
	EMP7	XY treats its clients fairly
	EMP8	XY is a top company
	EMP9	I am satisfied with XY's services
Latent factor SE	ENGAGE4	XY actively participates in communities where it does business
Latent factor CP	PERFORM3	XY competes fairly in the marketplace
	PERFORM6	XY has a sizable market share
Latent factor GE	EMPLOY1	XY appears to be a good employer to work for
	EMPLOY4	XY trains its employees well
	EMPLOY5	XY has skilled employees
Latent factor SP	SERVE1	XY's branches are neat and tidy/The service desks of XY are neat and tidy
	SERVE4	The branches of XY are conveniently located / The service desks of XY are conveniently located
	SERVE5	XY's service is consistent at all branches
	SERVE6	XY's staff is accessible
	SERVE8	If I experience a problem with XY's services, it is resolved quickly
	SERVE9	Dealing with XY's staff is a pleasure

Table 8.16: The 19 items remaining after a CFA for the Bank and Airline samples (Wave 2)

Dimensions	Codes	Items
Latent factor EA	EMP1	I have a good feeling about XY
	EMP2	I admire XY
	EMP3	I trust XY
	EMP4	I am proud to be associated with XY
	EMP5	I like XY
Latent factor SE	ENGAGE1	XY supports good causes
	ENGAGE2	XY is committed to social responsibility (social issues)
	ENGAGE3	XY responds to the needs of communities
	ENGAGE5	XY reaches out to its social environment
Latent factor CP	PERFORM1	XY appears to make financially sound decisions
	PERFORM2	XY has good management in place
	PERFORM4	The management of XY is held in high regard
	PERFORM5	XY outperforms its competitors financially
Latent factor GE	EMPLOY2	XY treats its employees well
	EMPLOY3	XY seems to pay attention to the needs of employees
	EMPLOY6	XY looks after the well-being of its employees
Latent factor SP	SERVE2	XY's online services are user-friendly
	SERVE3	XY's online services are effective
	SERVE7	Doing my banking online is easy / Booking a flight online is easy

An inspection of the *p*-value of the test of a close fit (p = 0.992) of the 19-item measurement model confirmed that the null hypothesis could not be rejected, suggesting that the data fits the Airline sample model closely. The other fit statistics confirmed this conclusion (χ^2 = 215.90; χ^2/df ratio = 1.52; RMSEA = 0.0364; ECVI = 0.796). One should, however, never assess a model's construct validity on fit indices alone (see Table 8.21 for a comparison of the fit indices of the Airline and Bank samples).

An evaluation of model fit should derive from a variety of sources (Diamantopoulos & Siguaw, 2000), including an inspection of the factor loadings. Table 8.17 revealed that all factor loadings exceeded 0.750 and were statistically significant, which can be regarded as evidence of convergent validity (Diamantopoulos & Siguaw, 2006: 89; Hair *et al.,* 2006: 777). The only exception was one *Service points* item (coded SERVE7) which was still loading to a significant extent (p < 0.001) with a factor loading of 0.593 – well above the 0.5 minimum called for by Hair *et al.* (2006: 777).

Table 8.17: Individual factor loadings (pattern matrix) of five dimensions in the Airline sample (Wave 2)

Dimensions	Codes	Factor loadings
Latent factor EA	EMP5	0.827
	EMP1	0.883
	EMP3	0.871
	EMP4	0.888
	EMP2	0.855
Latent factor SE	ENGAGE2	0.795
	ENGAGE3	0.796
	ENGAGE1	0.861
	ENGAGE5	0.916
Latent factor CP	PERFORM5	0.798
	PERFORM4	0.861
	PERFORM1	0.908
	PERFORM2	0.889
Latent factor GE	EMPLOY2	0.770
	EMPLOY6	0.842
	EMPLOY3	0.750
Latent factor SP	SERVE7	0.593
	SERVE3	0.887
	SERVE2	0.888

Another way to assess convergent validity is to assess the average variance extracted – the amount of variance that is captured by the construct as opposed to the amount of variance due to measurement error. If the average variance extracted (AVE) exceeds 0.5, it implies that the amount of variance in the items exceeds the variance due to measurement error (Diamantopoulos & Siguaw, 2000).

In this model, the AVE of each construct exceeded 0.6, offering evidence of convergent validity (Table 8.18).

According to Fornell and Larcker (1981), a comparison of the average variance extracted (AVE) with the squared correlation between each pair of constructs in the measurement model provides evidence of discriminant validity. Table 8.18 shows that in each instance the AVE exceeds the squared correlation between each pair of constructs, which offers evidence of discriminant validity among the latent variables in the Airline measurement model.

Table 8.18: Average variance extracted compared with squared correlations:

Airline sample (Wave 2)

Latent variable	Latent factor EA	Latent factor SE	Latent factor CP	Latent factor GE	Latent factor SP
Latent factor EA	*0.748*				
Latent factor SE	0.267	*0.712*			
Latent factor CP	0.125	0.536	*0.748*		
Latent factor GE	0.125	0.402	0.279	*0.621*	
Latent factor SP	0.266	0.125	0.125	0.108	*0.642*

Note: AVE values in bold and italics are on the diagonal, and squared correlations are below the diagonal.

8.5.2   Wave 2: Bank sample

A similar model assessment was conducted, based on the raw data of the Bank sample.

Table 8.19 revealed that all factor loadings exceeded 0.713 and were statistically significant, which can be regarded as evidence of convergent validity (Diamantopoulos & Siguaw, 2006: 89; Hair *et al.,* 2010: 709).

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Table 8.19: Individual factor loadings (pattern matrix) of five dimensions
in the Bank sample (Wave 2)

Dimensions	Items	Factor loadings
Latent factor EA	EMP5	0.913
	EMP1	0.902
	EMP3	0.855
	EMP4	0.920
	EMP2	0.881
Latent factor SE	ENGAGE2	0.844
	ENGAGE3	0.804
	ENGAGE1	0.860
	ENGAGE5	0.899
Latent factor CP	PERFORM5	0.695
	PERFORM4	0.812
	PERFORM1	0.804
	PERFORM2	0.852
Latent factor GE	EMPLOY2	0.740
	EMPLOY6	0.918
	EMPLOY3	0.839
Latent factor SP	SERVE7	0.713
	SERVE3	0.911
	SERVE2	0.853

An inspection of the *p*-value of the test of a close fit (p = 0.984) of the 19-item measurement model confirmed that the null hypothesis could not be rejected, suggesting that the data fits the Bank sample model closely. The other fit statistics confirmed this conclusion (χ^2 = 240.068; χ^2/df ratio = 1.69; RMSEA = 0.0392; ECVI = 0.747) (see Table 8.21).

To assess convergent and discriminant validity, the same assessment was conducted on the data from the Bank sample. The results revealed that all the factor loadings exceeded 0.6 (Table 8.19) and were statistically significant (evidence of convergent validity). In addition, the AVE of each construct exceeded 0.6, offering further evidence of convergent validity (Table 8.20). A comparison between the AVE of each construct and the squared correlation between each pair of constructs showed that in each instance the AVE exceeded the squared correlation, which offers evidence of discriminant validity among the latent variables. The only exception was the squared correlation between the construct *Latent factor EA* being equal to the AVE of *Latent factor CP* (0.629) (Table 8.20).

Table 8.20: Average variance extracted compared with squared correlations:

Bank sample (Wave 2)

Latent variable	Latent factor EA	Latent factor SE	Latent factor CP	Latent factor GE	Latent factor SP
Latent factor EA	*0.800*				
Latent factor SE	0.360	*0.727*			
Latent factor CP	0.629	0.446	*0.629*		
Latent factor GE	0.255	0.350	0.398	*0.698*	
Latent factor SP	0.315	0.094	0.204	0.089	*0.689*

Note: AVE values in bold and italics are on the diagonal, and squared correlations are below the diagonal.

Table 8.20 thus provides evidence of both convergent and discriminant validity for the 19-item measurement model in the Bank sample.

8.5.3   Wave 2: Goodness-of-fit indices of the instrument

The fit indices of both the Airline and Bank samples have been discussed in §8.5.1 and §8.5.2 above. A summary of the goodness-of-fit statistics is provided in Table 8.21. It shows that the two samples produced very similar results and that the 19-item measurement model demonstrates sufficient evidence of construct validity.

The inclusion is based on the following fit indices for both samples (Browne & Cudeck, 1993; Diamantopoulos & Siguaw, 2000):

i)   The *p*-value for a close fit exceeds 0.05; a *p*-value of greater than 0.05 implies that the H_0 of a close fit cannot be rejected and thus indicates a good model fit (Barrett, 2007; Diamantopoulos & Siguaw, 2000).

ii)   The RMSEA is below 0.05; an RMSEA value ≤ 0.05 indicates a good (close) fit (Browne & Cudeck, 1993; Diamantopoulos & Siguaw, 2000; Schumacker & Lomax, 2010).

iii)   The upper limit of the 90% confidence interval of the RMSEA is below 0.08 (Browne & Cudeck, 1993).

iv)   The X^2/df ratio is below 1.70. The X^2/df ratio has a minimum of 0 (perfect fit) and no theoretical maximum; smaller values of the X^2/df thus indicate a better fit (Taylor, 2008). Wheaton *et al.* (1977) argued that a value of ≤ 5 indicates a good fit.

v)   The critical N-value is greater than 200; an adequate representation of the data is CN > 200 (Diamantopoulos & Siguaw, 2000).

vi)   The ECVI value is low (close to 0). ECVI measures the discrepancy between the fitted covariance matrix in the analysed sample, and the expected covariance matrix that would be obtained in another sample of equivalent size (Browne & Cudeck, 1989; Diamantopoulos & Siguaw, 2000).

Table 8.21 suggests that the H_0 hypothesis of a perfect fit is rejected for both samples. The X^2-value suggest there is some discrepancy between the estimated covariance matrix and the observed covariance, and thus that the model does not fit perfectly in the population. However, the RMSEA values and the associated *p*-values for the test of close fit (RMSEA) serve as evidence for a close fit for both the Airline and the Bank samples (*p* = 0.922 for airlines and 0.984 for banks).

Table 8.21: Goodness-of-fit statistics for Airline sample and Bank sample (Wave 2)

Goodness-of-fit indicator	Values (airlines)	Values (banks)
Degrees of freedom	142	142
Satorra-Bentler scaled X^2	215.902	240.068
X^2/df	1.52	1.69
Minimum fit function value	0.806	0.818
Population discrepancy function value (FO)	0.189	0.218
Root mean square error of approximation (RMSEA)	0.0364	0.0392
90% confidence level for RMSEA	(0.0262; 0.0460)	(0.0304; 0.0476)
p-value for test of close fit (RMSEA < 0.05)	0.992	0.984
Expected cross-validation index (ECVI)	0.796	0.747
Critical N (CN)	335.292	346.123

8.5.4   Wave 2: Reliability of the instrument

Table 8.22 summarises the internal consistency (Cronbach's Alpha) scores of all the underlying dimensions (in the Airline and Bank samples) in the left-hand panel and the construct reliability in the right-hand panel. All scores are above the 0.7, which is the cut-off recommended for both Cronbach's Alpha and composite reliability (construct reliability) (Hair *et al.,* 2006: 778).

The results in Table 8.22 therefore offer strong evidence of the reliability of the proposed instrument as well as evidence of convergent validity (Hair *et al.*, 2006: 777).

Table 8.22: Reliability of the instrument (Wave 2)

	Airline sample (CA)	Bank sample (CA)	Airline sample (CR)	Bank sample (CR)
Latent factor EA	0.937	0.952	0.947	0.967
Latent factor CP	0.921	0.868	0.922	0.946
Latent factor SP	0.828	0.866	0.839	0.884
Latent factor GE	0.827	0.868	0.831	0.936
Latent factor SE	0.906	0.913	0.908	0.926

CA = Cronbach's Alpha   CR = Construct reliability

Despite the favourable assessment of the construct validity of the 19-item instrument, the results were replicated in a new sample, as recommended by Malhotra *et al.* (1999: 172).

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8.6   WAVE 3: Data collection

8.6.1   Wave 3: Administering of questionnaires, response rate and data preparation

To re-confirm the construct validity of the 19-item instrument (see Table 8.24) to measure client-based corporate reputation in the service industry, the instrument was sent to a new sample of 8047 respondents – the entire population of a new, commercially-acquired database of individuals. In total, 339 usable responses were received from airline clients and 335 from bank clients. Respondents were asked about their most frequently used airline and bank. A total of 89% of the respondents in the joint Wave 3 sample were between 21 and 60 years of age, and 72% were male. Again, all provinces were represented, with the majority of respondents living in Gauteng and the Western Cape. The sample size and response rate of the Wave 3 data collection phase are summarised in Table 8.23.

Table 8.23: Sample size and response rate (Wave 3)

	Banks	Airlines	Total
Questionnaires distributed	4023	4024	8047
Questionnaires returned	341	364	705
Number of non-clients and those with missing data (questionnaires not usable)	6	25	31
Effective sample size (usable questionnaires)	335	339	674
Response rate	8%	9%	9%
Percentage usable client questionnaires	8%	8%	8%

8.6.2   Wave 3: Re-operationalisation of the instrument

The same 19-item instrument as the one that emerged after Wave 2 was sent to the new sample (Table 8.24).

Table 8.24: The Wave 3 Instrument with five dimensions and 19 items

Dimensions	Codes	Items
Latent factor EA	EMP1	I have a good feeling about XY
	EMP2	I admire XY
	EMP3	I trust XY
	EMP4	I am proud to be associated with XY
	EMP5	I like XY
Latent factor SE	ENGAGE1	XY supports good causes
	ENGAGE2	XY is committed to social responsibility (social issues)
	ENGAGE3	XY responds to the needs of communities
	ENGAGE5	XY reaches out to its social environment
Latent factor CP	PERFORM1	XY appears to make financially sound decisions
	PERFORM2	XY has good management in place
	PERFORM4	The management of XY is held in high regard
	PERFORM5	XY outperforms its competitors financially
Latent factor GE	EMPLOY2	XY treats its employees well
	EMPLOY3	XY seems to pay attention to the needs of employees
	EMPLOY6	XY looks after the well-being of its employees
Latent factor SP	SERVE2	XY's online services are user-friendly
	SERVE3	XY's online services are effective
	SERVE7	Doing my banking online is easy / Booking a flight online is easy

The instrument was again re-operasionalised in light of the items that had fallen away after the Wave 2 analysis.

8.6.2.1 Latent factor EA

Latent factor EA had to be redefined and re-operationalised in light of four items that were deleted during the scale purification of Wave 2.

Latent factor EA – for the purpose of the Wave 3 Instrument development in the present study – is defined as *the extent to which a client of an organisation has a good feeling about the organisation, admires, trusts and likes the organisation, and is proud to be associated with it.*

The five items formulated to measure the construct *Latent factor EA* in the Wave 3 instrument, as operationalised above, are listed in Table 8.24.

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8.6.2.2 Latent factor SE

The *Latent factor SE* dimension had to be redefined because of the one item that was deleted during the Wave 2 analysis.

Latent factor SE is thus defined as *the extent to which a client evaluates his/her organisation as supporting good causes, being committed to social responsibility (social causes), reaching out to its social environment, and responding to the needs of communities.*

The four items formulated to measure the construct *Latent factor SE* in the Wave 3 Instrument, as operationalised above, are listed in Table 8.24.

8.6.2.3 Latent factor CP

Two items were deleted from the *Latent factor CP* dimension and the definition of the dimension was thus changed slightly.

Latent factor CP, for the purpose of the Wave 3 instrument, refers to *an evaluation by the client regarding the business (corporate) performance of the organisation in terms of the management of the organisation that is regarded as 'good' and is held in high regard, and in terms of the organisation outperforming its competitors financially and making financially sound decisions.*

The four items formulated to measure the construct *Latent factor CP* in the Wave 3 Instrument, as operationalised above, are listed in Table 8.24.

8.6.2.4 Latent factor GE

Three items were deleted from the *Latent factor GE* dimension as part of the purification process after the analysis of the Wave 2 Instrument and it was thus redefined*.*

Latent factor GE, for the purpose of the Wave 3 Instrument, is defined as *the extent to which an organisation, from the perspective of its clients, seems to pay attention to the needs of its employees, looks after the well-being of employees and treats them well.*

The three items measuring the dimension *Latent factor GE* in the Wave 3 Instrument, as operationalised above, are listed in Table 8.24.

8.6.2.5 Latent factor SP

Six items fell away in the *Latent factor SP* dimension.

Latent factor SP is redefined as *the extent to which, according to a client of an organisation, the online services of the organisation are effective and user-friendly and are easy to use.*

The three items measuring the dimension *Latent factor SP* in the Wave 3 instrument, as operationalised above, are listed in Table 8.24.

8.7 WAVE 3: QUANTITATIVE ANALYSIS: REFINEMENT OF THE INSTRUMENT

After a confirmatory factor analysis (CFA) was performed on both the Bank and Airline samples, the 19-item instrument emerging after Wave 2 remained intact in Wave 3. As both the dimensions and the items proved completely stable, compared to the dimensions and items in Wave 2, and because some of the dimensions re-emerged in a similar fashion as in the initial Draft Instrument, the dimensions were (re)named finally to represent the items (Table 8.25). The dimensions were thus named as follows: *Emotional appeal* (replacing *Latent factor EA*), *Social engagement* (replacing *Latent factor SE*), *Corporate performance* (replacing *Latent factor CP*), *Good employer* (replacing *Latent factor GE*) and *Service points* (replacing *Latent factor SP*).

Table 8.25: The five dimensions and 19 items remaining after CFA (Wave 3)

Dimensions	Codes	Items
Emotional appeal	EMP1	I have a good feeling about XY
	EMP2	I admire XY
	EMP3	I trust XY
	EMP4	I am proud to be associated with XY
	EMP5	I like XY
Social engagement	ENGAGE1	XY supports good causes
	ENGAGE2	XY is committed to social responsibility (social issues)
	ENGAGE3	XY responds to the needs of communities
	ENGAGE5	XY reaches out to its social environment
Corporate performance	PERFORM1	XY appears to make financially sound decisions
	PERFORM2	XY has good management in place
	PERFORM4	The management of XY is held in high regard
	PERFORM5	XY outperforms its competitors financially
Good employer	EMPLOY2	XY treats its employees well
	EMPLOY3	XY seems to pay attention to the needs of employees
	EMPLOY6	XY looks after the well-being of its employees
Service points	SERVE2	XY's online services are user-friendly
	SERVE3	XY's online services are effective
	SERVE7	Doing my banking online is easy / Booking a flight online is easy

8.7.1 Factor loadings

In the Airline sample, all the individual factor loadings were significant and all were above 0.750. In the Bank sample, all the individual factor loadings were significant and all were above 0.820, except for one item (PERFORM5) which returned a loading of 0.668 (see Table 8.26). These significant loadings are evidence of the convergent validity and construct validity (Hair *et al.*, 2006: 777) for the proposed instrument in both samples.

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Table 8.26: Factor loadings for the Airline and Bank samples (Wave 3)

Dimensions	Items	Factor loadings	
		Airline sample	Bank sample
Emotional appeal	EMP1	0.928	0.934
	EMP2	0.840	0.889
	EMP3	0.803	0.889
	EMP4	0.849	0.909
	EMP5	0.881	0.923
Social engagement	ENGAGE1	0.800	0.885
	ENGAGE2	0.904	0.934
	ENGAGE3	0.903	0.894
	ENGAGE5	0.887	0.906
Corporate performance	PERFORM1	0.886	0.824
	PERFORM2	0.936	0.839
	PERFORM4	0.860	0.829
	PERFORM5	0.822	0.668
Good employer	EMPLOY2	0.877	0.904
	EMPLOY3	0.825	0.904
	EMPLOY4	0.872	0.933
Service points	SERVE2	0.819	0.838
	SERVE3	0.947	0.931
	SERVE7	0.761	0.932

8.7.2   Wave 3: Goodness-of-fit statistics for Airline and Bank samples

The null hypothesis of a close fit was again empirically assessed for both the Airline and the Bank samples (see Table 8.27). In the Airline sample, the fit statistics confirmed the conclusion that a reasonable fit was obtained (χ^2 = 306.954; χ^2/df ratio = 2.16; RMSEA = 0.0613; ECVI = 1.304). In the Bank sample, the null hypothesis of a close fit could not be rejected (*p*-value for a close fit = 0.671). The other fit statistics confirmed this conclusion (χ^2 = 245.945; χ^2/df ratio = 1.73; RMSEA = 0.0472; ECVI = 1.039). These fit indices provide support for the conclusion that the instrument demonstrates construct validity. (See 8.3.4 for a detailed discussion of how fit indices in SEM should be interpreted.)

Table 8.27: Goodness-of-fit statistics for Airline sample and Bank sample (Wave 3)

Goodness-of-fit indicator	Fit indices (Airlines)	Fit indices (Banks)
Degrees of freedom	142	142
Satorra-Bentler scaled chi-square	306.954	245.945
χ^2/df	2.16	1.73
Minimum fit function value	1.219	1.030
Population discrepancy function value (FO)	0.534	0.316
Root mean square error of approximation (RMSEA)	0.0613	0.0472
90% confidence level for RMSEA	0.0519; 0.0707	0.0371; 0.0569
p-value for test of close fit (RMSEA < 0.05)	0.0247	0.671
Expected cross-validation index (ECVI)	1.304	1.039
Critical N (CN)	186.345	247.294

8.7.3   Convergent and discriminant validity: Airline measurement model (Wave 3)

To assess convergent validity, the average variance extracted (AVE) for each dimension was calculated. Table 8.28 shows that all the AVE scores for the Airline sample are above 0.7, and well above the 0.5 cut-off that is regarded as evidence of convergent validity (Hair *et al.*, 2006).

To assess discriminant validity, the shared variance test of Fornell and Larcker (1981) was again used. Table 8.28 shows that, for the Airline sample, all the AVE values exceed the squared correlations. These results provide strong evidence of both convergent and discriminant validity of the proposed instrument in the Airline sample.

Table 8.28: Average variance extracted compared with squared correlations:

Airline sample (Wave 3)

Latent variable	Emotional appeal	Social engagement	Corporate performance	Good employer	Service points
Emotional appeal	*0.742*				
Social engagement	0.244	*0.765*			
Corporate performance	0.557	0.233	*0.769*		
Good employer	0.398	0.214	0.298	*0.737*	
Service points	0.381	0.125	0.243	0.154	*0.716*

Note: AVE values in bold and italics are on the diagonal, and squared correlations are below the diagonal.

8.7.4   Convergent and discriminant validity: Bank measurement model (Wave 3)

To assess discriminant validity in the Bank sample, the shared variance test was again used. Table 8.29 shows that for the Bank sample the AVE exceeded the squared correlations in all instances except one. The squared correlation between *Emotional appeal* and *Corporate performance* (0.723) is marginally higher than the AVE of *Corporate performance* (0.717). Despite this marginal

exception, these results provide strong evidence of both convergent and discriminant validity of the proposed instrument in the Bank sample.

Table 8.29: Average variance extracted compared with squared correlations:

Bank sample (Wave 3)

Latent variable	Emotional appeal	Social engagement	Corporate performance	Good employer	Service points
Emotional appeal	*0.804*				
Social engagement	0.377	*0.819*			
Corporate performance	0.723	0.434	*0.717*		
Good employer	0.384	0.362	0.433	*0.806*	
Service points	0.173	0.286	0.371	0.173	*0.782*

Note: AVE values in bold and italics are on the diagonal, and squared correlations are below the diagonal.

8.7.5   Nomological validity

Churchill (1979) and Hair *et al.* (2006: 778) recommended that the position of a construct must be assessed in a nomological net when evaluating the construct's nomological validity. In this study, it was hypothesised that a high score on a scale that measures the underlying dimensions of corporate reputation will be positively linked to *client loyalty* in a nomological net. In addition, it was expected that there would be a positive relationship for both sub-samples between the scores on the underlying dimensions of *corporate reputation* and a one-item global score of *corporate reputation.* Two scales were thus used to assess nomological validity.

Table 8.30 shows that all the variables in the nomological net are statistically ($p < 0.001$) strongly related and in the expected direction. These results add additional evidence of the validity of the instrument.

Table 8.30: Nomological assessment: correlation analyses [1]

	Emotional appeal **(Airlines) (Banks)**	Social engagement **(Airlines) (Banks)**	Corporate performance **(Airlines) (Banks)**	Good employer **(Airlines) (Banks)**	Service points **(Airlines) (Banks)**	Loyalty **(Airlines) (Banks)**	Reputation **(Airlines) (Banks)**
Emotional appeal	-------------						
Social engagement	0.494 0.614	------------- -------------					
Corporate performance	0.746 0.850	0.483 0.659	------------- -------------				
Good employer	0.631 0.620	0.463 0.602	0.546 0.658	------------- -------------			
Service points	0.617 0.678	0.354 0.535	0.493 0.609	0.416 0.393	------------- -------------		
Loyalty	0.755 0.787	0.280 0.430	0.575 0.685	0.574 0.432	0.574 0.567	------------ ------------	
Reputation	0.855 0.798	0.518 0.855	0.760 0.518	0.515 0.527	0.569 0.798	0.684 0.670	------------ ------------

All correlations significant at $p < 0.001$

Source: Table compiled by the researcher.

8.7.6   Reliability of the instrument (Wave 3)

Table 8.31 below shows the internal consistency (Cronbach's Alpha) scores of the final instrument in the left-hand panels and the composite reliability in the right-hand panels. All scores are above the 0.7 cut-off recommended for both Cronbach's Alpha and composite reliability (Hair *et al.*, 2006: 778). The results in Table 8.31 offer strong evidence of the reliability of the proposed instrument.

Table 8.31: Reliability of the Wave 3 Instrument

	Airline sample **(CA)**	Bank sample **(CA)**	Airline sample **(CR)**	Bank sample **(CR)**
Emotional appeal	0.944	0.959	0.911	0.967
Corporate performance	0.934	0.866	0.927	0.946
Service points	0.938	0.926	0.910	0.884
Good employer	0.930	0.892	0.841	0.936
Social engagement	0.866	0.930	0.926	0.926

CA = Cronbach's Alpha.   CR = Construct reliability.

8.7.7   Invariance testing

The purpose of invariance testing in this study was to assess whether the proposed measurement model is invariant across the Airline and the Bank samples. If evidence of invariance across the Airline and Bank samples could be found, it would imply that the measurement parameters of the

proposed measurement model (instrument) have the same meaning in more than one group or population. To assess invariance, increasingly stringent equality constraints or requirements were placed on the model in a series of data analysis steps ranging from configural invariance to strict invariance.

The first step in the invariance assessment was to assess the configural invariance of the model in the Airline and Bank samples. *Configural invariance* only assesses the invariance of the factor structure of the model. The *p*-value for the test of a close fit ($p < 0.05$) was 0.164. This result suggests that the null hypothesis of a close-fitting model could not be rejected. In other words, the configuration of salient and nonsalient factor loadings was the same for both groups, and there was thus sufficient evidence of configural invariance.

To prove *weak invariance* (metric invariance), a model in which the factor loadings are constrained to be equal in both groups must yield a close fit to the data. The proposed model fitted the data closely ($p = 0.120$), which suggests that the null hypotheses of a close-fitting model cannot be rejected. This result meant that the descriptors and scale interval used in developing the instrument were understood in the same way in both groups.

The results of the *strong (scalar) invariance* test ($p < 0.05$) of the proposed instrument suggested that the intercepts of the items in the model in the two samples were not invariant ($p = 0.000$). In such an instance, one can assess partial strong invariance by setting intercepts of some of the items free and in particular those items where the biggest discrepancies in intercepts (TAU-X) were observed.

Table 8.32 shows that all the items measuring the dimensions *Corporate performance* and *Social engagement* yielded particularly discrepant TAU-X (intercepts) values. These discrepancies imply that these two factors (*Corporate performance* and *Social engagement*) are not invariant in both groups/samples. Once these parameters were freed, however, there was some evidence of partial strong invariance ($p = 0.0518$).

Table 8.32: Comparisons of the intercepts in the Bank and Airline samples (Wave 3)

Items	Airline	Bank	Difference
PERFORM1	3.7900	4.779	-0.9890
PERFORM2	3.9390	4.682	-0.7430
PERFORM4	3.9230	4.639	-0.7160
ENGAGE1	4.0160	4.703	-0.6870
ENGAGE5	4.0320	4.603	-0.5710
ENGAGE2	4.0450	4.597	-0.5520
PERFORM5	3.8840	4.391	-0.5070
EMP4	4.3000	4.748	-0.4480
ENGAGE3	3.9940	4.433	-0.4390
EMP2	4.2130	4.536	-0.3230
EMP3	4.6770	4.903	-0.2260
SERVE7	5.4190	5.642	-0.2230
SERVE3	5.2000	5.421	-0.2210
EMP1	4.5650	4.779	-0.2140
EMPLOY6	4.2840	4.439	-0.1550
SERVE2	5.3740	5.500	-0.1260
EMPLOY3	4.2680	4.388	-0.1200
EMPLOY2	4.3190	4.430	-0.1110
EMP5	4.9130	4.948	-0.0350

However, a closer inspection of the eight items (Table 8.32) measuring *Corporate performance* (4) and *Social engagement* (4) revealed that they refer to actions and activities one would ordinarily expect a typical 'for-profit' (fully commercial) service organisation to perform. The service organisations investigated in this study included clients of one state-owned airline that does not function fully as a for-profit entity, and that is heavily subsidised by the national government, unlike the rest of the privately owned airlines and banks whose clients participated in this study.

It was then decided to remove those respondents from the data set who were clients of the state-owned airline, and again to assess strong invariance between the two samples using only clients of 'for-profit' airlines in subsequent analyses. This deletion reduced the size of the airline sample from 310 to 200 respondents. The measurement model of the instrument using this smaller data set yielded a close-fitting model (p = 0.805; χ^2 = 191.97; χ^2/df ratio = 1.35; RMSEA = 0.0421; ECVI = 1.447).

More importantly, the resultant invariant analysis revealed considerable evidence of strong invariance across the two groups (p = 0.460). Given this result, both the configural invariance and the weak invariance of the model with only the 'for-profit' airlines respondents' data were re-

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assessed and confirmed. In the case of configural invariance, for a close-fitting model the p-value was 0.803, and for weak invariance, the p-value was 0.871.

Thus, using only the reputation assessments of clients of 'for-profit' airlines and 'for-profit' banks, the proposed instrument yielded evidence of configural, weak (metric) and strong (scalar) invariance.

The next steps were to assess both strict and complete invariance using the smaller airline data set. The subsequent analysis yielded sufficient evidence of strict invariance between the two groups (p-value of a close-fitting model = 0.273) as well as complete invariance (p-value of a close-fitting model = 0.118). In both these instances, the null hypothesis of a close-fitting model could not be rejected ($p < 0.05$). These results (summarised in Table 8.33) suggest that the hypothesis, namely that all the parameters in the measurement model are the same in both the Airline and the Bank sample, is a tenable one.

Table 8.33: Hierarchical multi-group measurement model assessment [1]

Hierarchical level of invariance	p-value for close fit	Satorra-Bentlerχ^2	df	χ^2/df ratio	RMSEA	CFI	ECVI	Decision on model invariance
Configural	0.803	440.31	284	1.55	0.0457	0.994	1.341	Do not reject close fit hypothesis
Weak	0.871	452.85	298	1.52	0.0444	0.994	1.312	Do not reject close fit hypothesis
Strong	0.460	529.17	317	1.67	0.0504	0.992	1.385	Do not reject close fit hypothesis
Strict	0.273	581.00	336	1.73	0.0526	0.991	1.411	Do not reject close fit hypothesis
Complete	0.118	630.76	351	1.80	0.0549	0.990	1.448	Do not reject close fit hypothesis

Using data from clients of the fully commercial 'for-profit' organisations only.

The empirical results summarised in Table 8.33, in addition to evidence of invariance, also provide evidence of equivalence.

8.7.8 Final instrument

The final instrument developed in this study to measure corporate reputation from the perspective of clients of an organisation in the service industry is shown in Table 8.34 below.

Table 8.34: The final instrument to measure client-based corporate reputation in organisations in the service industry

Dimensions	Codes	Items
Emotional appeal	EMP1 EMP2 EMP3 EMP4 EMP5	I have a good feeling about XY I admire XY I trust XY I am proud to be associated with XY I like XY
Social engagement	ENGAGE1 ENGAGE2 ENGAGE3 ENGAGE5	XY supports good causes XY is committed to social responsibility (social issues) XY responds to the needs of communities XY reaches out to its social environment
Corporate performance	PERFORM1 PERFORM2 PERFORM4 PERFORM5	XY appears to make financially sound decisions XY has good management in place The management of XY is held in high regard XY outperforms its competitors financially
Good employer	EMPLOY2 EMPLOY3 EMPLOY6	XY treats its employees well XY seems to pay attention to the needs of employees XY looks after the well-being of its employees
Service points	SERVE2 SERVE3 SERVE7	XY's online services are user-friendly XY's online services are effective Booking a flight online is easy/Doing my banking online is easy

8.8 SUMMARY AND CONCLUSION

In Chapter 8, the empirical results of the present study were presented. The validity and reliability of the measurement instrument were assessed in three waves. Firstly, the collection of data in three waves of instrument development, and the purification and refinement process during data analysis were discussed. The exploratory factor analysis in Wave 1 provided evidence of discriminant and convergent validity. The fit indices also provided evidence of construct validity. The confirmatory factor analyses and reliability tests for Sample 1 and Sample 2 were reported. The steps taken during Wave 2 to further purify the instrument were discussed, starting with confirmatory factor analysis. The inspection of both the Bank and Airline samples for admissibility, reliability and sources of poor fit was discussed, and evidence of convergent and discriminant validity for both the Bank and the Airline samples was explained in some detail. Convergent and discriminant validity of the final instrument (Wave 3) was confirmed and discussed. The analyses performed to demonstrate nomological validity, reliability, fit and invariance were explained.

The analyses resulted in the identification of five dimensions (factors) that potentially measure the corporate reputation of large organisations in the service industry, as perceived by clients of these organisations. These five factors emerged as *Emotional appeal, Corporate performance, Social engagement, Good employer* and *Service points*.

It was concluded that:

i)   Based on the extensive scale development effort in this study, the proposed 19-item instrument to measure the client-based corporate reputation of large service organisations – as represented by two sectors, namely banking and airlines – along five dimensions (*Emotional appeal, Corporate performance, Social engagement, Good employer* and *Service points*) demonstrated sufficient evidence of construct validity. However, the findings of this study confirmed that the dimensions measuring corporate reputation might differ in different contexts (different stakeholder groups and different types of service organisations).

ii) When used in an environment that is state-owned (state-subsidised) to measure the two corporate reputation dimensions *Corporate performance* and *Social engagement*, there is some evidence that the appropriateness or relevance of these dimensions for a specific organisation, firm or environment needs to be re-considered. This note of caution also applies to other types of service organisations.

iii) The proposed model, measuring the corporate reputation of large fully commercial organisations, in addition to strong evidence of construct validity, has proved completely invariant across both 'for-profit' Airline samples and 'for-profit' Bank samples. The model (or instrument) is thus equivalent in both groups.

In Chapter 9, the last and final chapter, a summary of the present study will be presented. This will be followed by an interpretation of the empirical results presented in Chapter 8. Particular emphasis is placed on managerial implications and recommendations for service organisations on how to understand their client-based corporate reputations better by measuring them, and on how to manage their reputations effectively. Lastly, contributions and limitations of the study, as well as recommendations for future research, will be elaborated upon.

CHAPTER 9

THE DEVELOPMENT OF A NEW INSTRUMENT TO MEASURE CLIENT-BASED CORPORATE REPUTATION IN THE SERVICE INDUSTRY: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

'Our reputation is more important than the last million dollars.'

- Rupert Murdoch, News Corp

9.1   INTRODUCTION

In Chapter 8, the empirical results of this study were presented. A 19-item instrument emerged, based on extensive scale development procedures. These procedures included an assessment and explanation of the construct validity (including unidimensionality, convergent validity, discriminant validity and nomological validity), reliability, model fit and invariance of the new measurement instrument. The analyses resulted in the identification of five dimensions that measure the client-based corporate reputation of large organisations in the service industry. These dimensions are *Emotional appeal, Corporate performance, Social engagement, Good employer* and *Service points*.

Chapter 9, the final chapter of this study, provides an overview of the study. Among others, key research considerations and major findings are discussed. The theoretical implications of this study are highlighted, as well as the implications for service organisations in terms of the measurement of client-based corporate reputation and the management of this important intangible asset. Recommendations, based on the empirical findings, are formulated to guide organisations towards a more favourable reputation and to focus further academic research in this field. Finally, the limitations of the study are discussed and concluding remarks offered.

9.2   BACKGROUND AND CONTEXT OF THE STUDY

9.2.1   Literature review

As Churchill (1979: 70) pointed out 35 years ago, '… science continually emphasises improvement of the measures of the variables with which it works'. It is against this background, and to address lingering doubt about the construct validity of existing instruments to measure the client-based corporate reputation of large service organisations, that this study was conducted.

Although instruments have been developed to measure corporate reputation with all stakeholders and with organisations in general, little work has been done to develop an instrument to measure corporate reputation from the viewpoint of specific stakeholder groups (Bromley, 2002; Wartick, 2002), such as clients, and in the service industry specifically (Walsh & Beatty, 2007). Existing 'general' instruments are likely to measure all stakeholders' 'overall reputation' while sacrificing

information per stakeholder group (Walker, 2010: 372) and specific industry type in an effort to measure the collective perception. This is a limitation that has not been adequately addressed yet.

This study was based on the contention that a separate corporate reputation exists for each specific stakeholder group and thus also for clients as one of the most important stakeholder groups of any organisation. Reputation should therefore be measured from the unique perspective of clients. Inadequate progress has been made to develop a client-based instrument to measure corporate reputation in the context of the service industry (Davies, 2011; Walsh *et al*., 2006).

This study integrates prior findings and theories on corporate reputation and related concepts such as *corporate identity*, *corporate image* and *corporate brand* before developing a new instrument that would measure corporate reputation in a new context, namely from the viewpoint of clients and for organisations functioning in the service industry only. The absence of a valid and reliable instrument to measure corporate reputation was the gap that this study proposed to address.

A comprehensive literature study was conducted to identify the dimensions that would constitute corporate reputation among stakeholders in general and clients in particular. During the literature study phase, the focus fell on those dimensions that could be valid indicators of corporate reputation for clients of service organisations. In addition, the opinions of members of a focus group of clients of large service organisations (banks) and the recommendations of a panel of experts were taken into account before a new multidimensional reflective measurement model was proposed. Eleven potential dimensions (factors) that influence the assessments of clients of service organisations were identified from this exploratory phase of the study.

9.2.2   The research problem, questions, purpose and methodology

The focal point of this study was to identify the dimensions of client-based corporate reputation in a services setting. The initial thrust was thus to identity the specific dimensions that ***clients*** take into account when they assess the corporate reputation of organisations and to determine which dimensions are of particular importance in the ***service industry.***

The **purpose of this study** was therefore to develop a new, reliable and valid instrument to measure the corporate reputation of large organisations in the service industry from the perspective of clients.

In this study, large organisations in the banking and airline sectors were chosen as representative of organisations in the service industry, as described in §7.7. No claims are made that the proposed instrument would be valid in all types of organisations and all contexts.

The **research questions** were:

i)   What are the **dimensions** that clients of an organisation in the service industry take into account when they evaluate the corporate reputation of an organisation?

ii)   Are the dimensions that clients of an organisation in the banking sector take into account when they evaluate the corporate reputation of a **bank** different from the dimensions that clients of an organisation in the airline sector take into account when they evaluate the reputation of an **airline**?

iii) Do the dimensions that the **client** stakeholder group take into account when they evaluate the corporate reputation of an organisation differ from the dimensions that all stakeholders take into account when they evaluate the corporate reputation of an organisation?

iv)   Do the dimensions of a corporate reputation of a **services**-based organisation differ from that of other organisations?

Given the nature of the problem statement and the research questions posed in this study, a positivistic research paradigm was adopted. After minor adjustments were made in response to a pre-test, the initial questionnaires with 78 items measuring 11 dimensions were completed by individuals included in two databases containing clients of airlines and commercial banks in South Africa.

Each construct (dimension) was clearly defined and operasionalised. The operationalisation was performed using reliable and valid items from validated measurement instruments developed in previous studies, as well as self-generated items based on the focus group discussion. The questionnaires were sent to respondents as part of a first wave of data collection and analysis (referred to as Wave 1). Data collected from the usable questionnaires was subjected to a series of statistical analyses for instrument purification purposes. After purification in the first wave, the Wave 2 instrument contained 35 items, representing five dimensions. New data collected from new samples (clients of banks and airlines) was again subjected to statistical analyses, and this process resulted in a 19-item model to measure corporate reputation. In Wave 3 – a replication of the previous phase – the same 19-item questionnaire was sent to a sample frame originating from a second database containing clients of banks and airlines. The data obtained was subjected to a larger and more comprehensive set of statistical tests. No further purification was required and the data obtained in Wave 3 produced the same results during the statistical analyses as the data obtained in Wave 2.

Based on extensive scale development efforts, it was concluded that the proposed 19-item instrument to measure the client-based corporate reputation of large service organisations along five dimensions (*Emotional appeal, Corporate performance, Social engagement, Good employer* and *Service points*) demonstrated sufficient evidence of construct validity and reliability for both for-profit and state-subsidised (state-supported) organisations. However, some evidence suggested that, when used in an environment where an organisation is subsidised (in this case by the government), to measure the two corporate reputation dimensions *Corporate performance* and *Social engagement*, the appropriateness or relevance of these dimensions for a specific organisation, company or environment needs to be re-considered.

However, for measuring the corporate reputation of large for-profit organisations, the proposed model, in addition to strong evidence of construct validity and reliability, has proved completely invariant across both the for-profit airline and for-profit bank samples.

With the development of a valid and reliable instrument to measure client-based corporate reputation in large service organisations, the **purpose of this study** was thus addressed.

By identifying the dimensions that clients of a large organisation in the service industry take into account when they evaluate the corporate reputation of the organisation, as part of the scale refinement process, the **first research question** (*What are the dimensions that clients of an organisation in the service industry take into account when they evaluate the corporate reputation of an organisation?*) was thus also answered. The five dimensions that emerged were *Emotional appeal, Corporate performance, Social engagement, Good employer* and *Service points.*

Based on the scale development that was undertaken in this study, it was concluded that the 19-item instrument proved completely invariant across both the for-profit airline and for-profit bank samples. The level on invariance was, however, not so strong in the case where a state-subsidised airline was included. When they were included, there was evidence of both configural and weak invariance for the instrument in the two samples. The **second research question** (*Are the dimensions that clients of banks take into account when they evaluate the corporate reputation of a bank different from the dimensions that clients of airlines take into account when they evaluate the reputation of an airline?*) was thus answered. The same dimensions apply to both for-profit airlines and banks when their clients assess the reputation of these organisations. The study, however, showed that the relevance of two dimensions – *Corporate performance* and *Social engagement* – needs to be re-considered in the case of state-supported organisations (such as the state-subsidised airlines in this study).

Client-based corporate reputation is – based on the findings of this study – defined as *the assessment (evaluation) of the attributes of a large service organisation, based on the client's beliefs and attitudes about the organisation's Emotional appeal, Social engagement, Corporate performance, Good employer and Service points.*

9.3   INTERPRETATION OF EMPIRICAL FINDINGS

9.3.1   Emotional appeal dimension

The first dimension, *Emotional appeal,* suggests an emotional bond with the organisation, that can be linked to having a good feeling about the organisation, and that can be described as 'approach behaviour' (Zeithaml *et al.,* 2009). These pleasant emotions can be regarded as positive or beneficial (Davidson, 1993), and in this context refer to having a good feeling about the organisation, as well as to admiration, trust, pride and liking. This *Emotional appeal* dimension also featured strongly in almost all instruments measuring corporate reputation from the perspective of

stakeholders in general that were studied in the literature. In the RQ (Fombrun *et al.,* 2000), and especially in later instruments like the RepTrak™ Pulse (Ponzi *et al.,* 2011), it was suggested that the *Emotional appeal* dimension can largely explain corporate reputation and that this dimension is 'driven by' rational dimensions such as *Financial performance*.

During the statistical analysis in Wave 1, the *Emotional appeal* factor initially explained 57.917% of the variance in the data, while the other four factors explained 17.01% of the variance. This is a clear indication that the *Emotional appeal* dimension forms the 'main pillar' of any service organisation's corporate reputation with its clients. Without being liked by clients and without having earned their admiration and trust, and without clients having a good feeling about an organisation and being proud of it, the possibility of a positive reputation score among clients is slim indeed.

The strength of the *Emotional appeal* dimension suggests that the emotional (affective) dimension of client-based corporate reputation carries more weight with clients than the rational (cognitive) dimensions. Additionally, it suggests that corporate reputation goes beyond the rational 'facts' of the organisation and is more about a strong attitude, which is used to make a 'judgement' about an organisation.

The *Emotional appeal* dimension appeared in 'overall reputation' measurement instruments developed previously for use with all stakeholders, such as the RQ and RepTrak™ Pulse (Fombrun *et al.,* 2000; Ponzi *et al.,* 2011; Walsh & Wiedmann, 2004; Groenland, 2002; Gardberg, 2006; Shamma & Hassan, 2009). Schwaiger (2004) treated corporate reputation as an attitudinal construct, and his measurement model distinguished between the cognitive dimension, which he called *Competence,* and the affective dimension (to assess the emotional aspects), which he called *Likability.*

The *Emotional appeal* dimension appeared in the instrument developed by Puncheva-Michelotti and Michelotti (2010) to measure corporate reputation with customers, but did not feature in the client-based measurement instrument of Walsh and Beatty (2007) or the shortened version of Walsh, Beatty and Shiu's (2009) instrument. They regarded this dimension as an outcome of corporate reputation.

As mentioned in the previous paragraph, the study of Walsh and Beatty (2007), which was done in a services setting, did not contain the dimension *Emotional appeal*.

9.3.2   Social engagement dimension

The *Social engagement* dimension refers to whether the organisation is perceived to be involved with social issues and supports good causes. It also refers to whether the organisation is seen to respond to the needs of communities and reaches out to its social environment.

During one of the initial phases, where the researcher approached a panel of experts (academics and practitioners in the field of corporate reputation from South Africa and the rest of the world) to comment on the Draft instrument, there was a strong argument for the inclusion of a 'social engagement' dimension in addition to mere 'corporate social responsibility'. The rationale behind the panel's recommendation was that 'deeper' social engagement is a trend that suggests the entrenchment of social issues as part of the core strategy and operations of an organisation. 'Corporate social responsibility' has generally been associated with donations and the management of deserving social initiatives. 'Social engagement', on the other hand, suggests a deeper entrenchment of social issues in the organisation.

It can be argued that there is a stronger focus on social matters than on environmental matters in South Africa. This contention was proven to be correct in this study, because although an item about the environment was included in the initial instrument, only items pertaining to social issues remained and feature strongly in the final instrument.

Some instruments that were developed to measure reputation from the perspective of all stakeholders also contain 'social' elements, similar to the *Social engagement* dimension in this study. The RQ instrument has a dimension called *Social and environmental responsibility* (Fombrun *et al*., 2000). The studies of Walsh and Wiedmann (2004), Groenland (2002), Gardberg (2006), Worcester (2009), Dowling (2004b) and Shamma and Hassan (2009) confirmed its relevance. This dimension was not included in the RepTrak™ (Ponzi *et al.,* 2011), but two related dimensions feature, namely *Governance* (dealing with *ethics* and *fairness*) and *Citizenship* (dealing with a positive contribution in the community and social and environmental responsibility). Helm (2005) identified two dimensions, called *Commitment to charitable and social causes* and *Commitment to the environment.* One of the four reputation 'drivers' of Schwaiger (2004) is called *Responsibility*.

In studies that focused on the client (customer) stakeholder group only, Brown and Dacin (1997) identified a dimension *Corporate social responsibility*, and Walsh and Beatty (2007) and Walsh, Beatty and Shiu (2009) identified a *Social and environmental responsibility* dimension. The studies of Puncheva-Michelotti and Michelotti (2010) and Chetthamrongchai (2010) confirmed the relevance of the *Social engagement* dimension.

In the context of the service industry, the study of Walsh and Beatty (2007) identified a dimension *Social and environmental responsibility*. One 'social' item in this scale overlaps with one in the *Social engagement* dimension this study, namely 'XYZ supports good causes'.

9.3.3   Corporate performance dimension

The *Corporate performance* dimension refers to the assessment of the financial soundness of the organisation and the regard in which its management is held. Two items in the final instrument pertain to financial soundness and two to good management.

Other instruments measuring corporate reputation contain dimensions such *Financial performance* and *Vision and leadership* (Fombrun *et al.,* 2000). In this study, these dimensions collapse into a single dimension called *Corporate performance*. One reason for this convergence may be that clients are not as aware of the financial performance, good management or visionary leadership as stakeholders such as investors and employees may be. *Corporate performance* is still important to clients, but this dimension is not emphasised as much as was the case with previous reputation instruments measuring reputation from the perspective of all stakeholders. Although clients do not have as much information as other stakeholders such as investors and employees about the management or financial aspects of the organisation, they do have access to broad indicators of good management and financial soundness, which they can pick up in media reports and through other indirect sources. However, intimate knowledge such as detailed financial information, financial prospects and good leadership and management are not as readily available to them.

It is thus notable that the old 'financial performance' dimension, prominent in so many earlier attempts to measure corporate reputation, has diminished in importance. This instrument has a dimension called *Corporate performance*, not *Financial performance*. It seems as if the crass profit and market share requirements ('the organisation must make money') have been replaced with requirements such as 'the management of XY is held in high regard'.

As mentioned earlier, other instruments developed for use with stakeholders in general contain some elements of the *Corporate performance* dimension in this study. The RQ instrument contains the dimensions *Financial performance* and *Vision and leadership* (Fombrun *et al.,* 2000), as is the case with the scales of Walsh and Wiedmann (2004), Groenland (2002) and Gardberg (2006). The RepTrak™ has two dimensions, *Leadership* and *Performance* (Ponzi *et al.,* 2011), while the scale of Helm (2005) contains three related dimensions – *Qualification of management*, *Financial performance* and *Corporate success*. Schwaiger (2004) talked about *Performance,* Shamma and Hassan (2009) about *Financial Performance*, and Dowling (2004b) about *Corporate capability*.

Among earlier reported scales attempting to measure reputation among clients, Lloyd (2007) identified a *Performance* dimension, and Brown and Dacin (1997) a dimension called *Corporate ability*. Walsh and Beatty (2007) and Walsh, Beatty and Shiu (2009) named one of their dimensions *Reliable and financially strong company*. The study of Puncheva-Michelotti and Michelotti (2010) referred to the dimensions *Management excellence* and *Economic performance* relevant to customers. Yoon *et al.* (1993), who developed a one-dimensional construct of corporate reputation with ten items, found *Financial performance* to be less important to customers than to other stakeholder groups.

In the study of Walsh and Beatty (2007), done in the service industry, a dimension called *Reliable and financially strong company* emerged. Thus, there is some overlap with the *Corporate performance* dimension in this study, although the items differ. The study of Rindova *et al.* (2005)

included a dimension vaguely related to *Corporate performance*, namely *Able to produce quality goods.*

9.3.4   Good employer dimension

The items measuring the dimension *Good employer* refer to the organisation's ability to pay attention to the needs and well-being of its employees and to whether it is regarded as an organisation that treats its employees well.

Sound employer-employee relations have indeed become important when an organisation is assessed by its clients, as demonstrated by various researchers who have investigated the dimensions that make an organisation attractive. The *Good employer* dimension also features in almost all instruments measuring 'general/overall' corporate reputation (from the viewpoint of all stakeholders), as well as the client-based instrument proposed by Walsh and Beatty (2007).

When comparing the new instrument proposed here to previous instruments measuring corporate reputation with all stakeholder groups, it becomes clear that the importance of the *Good employer* dimension in the formation of a corporate reputation remained virtually unchanged (refer the studies of Fombrun *et al.,* 2000; *Global Reputation Pulse 2010,* 2010; Ponzi *et al.,* 2011; Walsh & Wiedmann, 2004; Groenland, 2002; Gardberg, 2006; Helm, 2005; Shamma & Hassan, 2009).

The *Good employer* dimension also features in previous client-based corporate reputation instruments (refer Walsh & Beatty, 2007; Walsh, Beatty & Shiu, 2009). This dimension does not feature, however, in the client-based study of Puncheva-Michelotti and Michelotti (2010) or in that of Rindova *et al.* (2005).

The *Good employer* dimension features in another study focusing on services, namely that of Walsh and Beatty (2007).

9.3.5   Service points dimension

The dimension *Service points* that emerged in this study refers almost exclusively to the functionality of an organisation's online service delivery in terms of effectiveness, user-friendliness and ease of use.

In almost all previous instruments, *Service (and product) quality* was cited as an important dimension of an organisation's corporate reputation, measured from the perspective of stakeholders in general and for all types of organisations. In this study, the sophistication and ease of use of online *Service points* of large service organisations arose as an important dimension, while *Service quality* – against all expectations – did not emerge at all. This outcome can be partly explained by the fact that two rather 'sophisticated' sectors in the service industry were investigated, namely banks and airlines. Organisations functioning in these sectors also have 'sophisticated' clients, who expect nothing but *Quality services* from their organisations. One would expect them to regard indicators of *Service quality* as hygiene factors and therefore this dimension

did not specifically emerge as a dimension of importance in this study. Secondly, clients of large sophisticated service organisations expect modern technologies such as online booking facilities (in the case of airlines) and online banking facilities to be functioning smoothly and easily. This study confirms that fully functional and up-to-date information and communication technologies (ICT) have emerged as crucial indicators when a large, modern organisation's corporate reputation is measured. It is therefore concluded that point-of-service efficiencies are important differentiators that can have a substantial impact on a large organisation's client-based corporate reputation.

As mentioned before, no previous reputation scales developed for stakeholders or clients contain the *Service points* dimension that emerged in this study. The closest other dimensions are *Perceived customer orientation,* as identified by Walsh and Wiedmann (2004), and *Customer orientation,* identified by Helm (2005), Walsh and Beatty (2007), and Walsh, Beatty and Shiu (2009). MacMillan *et al.* (2004; 2005) named one of their dimensions *Increased listening to changing needs of customers.*

In the context of the service industry, no other scale identified the *Service points* dimension before. Walsh and Beatty's (2007) study identified a dimension *Customer orientation*, which did not emerge in this study. Rindova *et al.* (2005), who did a study of reputation of business schools, identified a different dimension, called *Stakeholders' perceptions of an organisation as able to produce quality goods.*

As described in this section above (§9.3), the **third research question** (*Do the dimensions that the **client** stakeholder group take into account when they evaluate the corporate reputation of an organisation differ from the dimensions that all stakeholders take into account when they evaluate the corporate reputation of an organisation?*) has been addressed. The conclusion is that the client-based corporate reputation dimensions overlap with the stakeholder-based reputation dimensions, but also differ substantially.

As discussed in this section (§9.3), the **fourth research question** (*Do the dimensions of a corporate reputation of a **services**-based organisation differ from that of other organisations?*) has been addressed. The conclusion is that dimensions for services-based organisations do overlap with the dimensions that were found to be true for organisations in general. They do, however, also differ to a certain extent, especially regarding *Service points* and *Social engagement*.

A common criticism of attitudinal, dimension-based measurement of corporate reputation is that some stakeholders (such as clients) may not be in a position to express an opinion on the organisation's employment practices or corporate performance (Dowling & Gardberg, 2012). While this is a valid point of contention, the items in this proposed instrument are of a very general nature, and do not rely on intimate or confidential information to form an opinion or attitude. In fact, they could possibly be treated as 'hygiene factors' in the sense that, in the absence of worker strikes, employees complaining about the organisation in the media, poor financial results or

bankruptcy concerns reported in the financial media, a client can conclude that the organisation can be rated favourably on these dimensions without access to intimate or confidential information.

9.4 THEORETICAL IMPLICATIONS AND CONTRIBUTIONS OF THE STUDY

The study makes a number of contributions to the body of knowledge in the field of corporate reputation measurement.

9.4.1 Methodological contribution

The scientific results emanating from this study are strengthened by the specific design approach and rigorous methodology that were followed. The design included a combination of qualitative and quantitative protocols. This constitutes a significant contribution.

Previous studies have mostly been characterised by smaller samples. The large samples used in this study ensured valid and reliable research findings.

The use of invariance testing in this type of study (the development of a new instrument) is rare, if not completely new. This has added to the rigour of the study.

9.4.2 Conceptual contribution

The study field of corporate reputation suffers from a proliferation of definitions. This and other issues inhibit progress in operationalising and measuring corporate reputation, and, subsequently, in developing theory (Dowling & Gardberg, 2012; Fombrun, 2012).

The confusion regarding the construct of corporate reputation continues to be a major obstacle in the way of the development of proper corporate reputation measurement instruments. One source of confusion is the overlap between corporate reputation and related concepts – corporate identity, corporate image and corporate brand. These constructs are sometimes used interchangeably. This construct confusion is due to the diversity of disciplines from which research emerges with different techniques and methodologies (Barnett *et al.*, 2006; Fombrun, 2012; Walker, 2010). This study contributes toward the development of theory through the disentanglement of the construct of corporate reputation from corporate identity, corporate image and corporate brand.

There is also a need to 'separate' the definition of the construct of corporate reputation from its antecedents and consequences. Many definitions of the construct include antecedents and consequences (Fombrun, 2012). This study clearly unravels the antecedents and consequences of corporate reputation from the attributes that make an organisation attractive (its corporate reputation).

Previous studies were characterised by a generalisation of corporate reputation dimensions pertinent to all stakeholders and in all industries. This study contributes to the body of knowledge on corporate reputation by having investigated a particular niche segment, namely the nature of the dimensions that constitute client-based corporate reputation. Walsh *et al.* (2006: 412)

emphasised that '… almost no work can be found that focuses on the most important stakeholder group, namely customers'. The results of this study thus offer recommendations for the measurement of corporate reputation among a particular stakeholder group (clients).

The study also investigated the dimensions of corporate reputation that are applicable to the service industry. Very little work has been done in the field of corporate reputation in the context of services. Kim and Choi (2003) and Wang *et al.* (2003) confirmed the need for a specific focus on the service industry and argued that, due to the intangibility and 'vagueness' of services, service organisations may be more likely to feel the effects of corporate reputation than other organisations. The results of this study recommend how corporate reputation should be measured in a specific context (service industry).

The dimension *Service points* did not feature specifically in previous instruments measuring reputation. Previous measurement instruments were developed mainly to measure reputation from a general perspective (all stakeholder groups). *Service points* now emerged prominently as a dimension from the perspective of clients. The emergence of *Service points* means that organisations must pay more attention to their interaction with clients at face-to-face service points as well as at online service points.

With this study, the construct of client-based corporate reputation of large service organisations was clearly demarcated en disentangled from the antecedents and consequences of reputation, as well as from related constructs such as corporate identity, corporate image and corporate brand.

9.4.3   Managerial contribution

Managers will be able to measure the corporate reputations of their organisations, as seen from the viewpoint of their clients, with a valid and reliable instrument that was developed specifically for this stakeholder group, as opposed to using older measurement instruments developed with all stakeholders in mind.

To conclude, the primary contribution of this study was the development of a new instrument that measures the dimensions (factors) that clients take into account when they evaluate the attractiveness of a large organisation (its reputation). With adjustments, the instrument could be used to measure the corporate reputation of similar types of large service organisations.

9.5   RECOMMENDATIONS

9.5.1   Recommendations to organisations (management)

The importance of a favourable corporate reputation cannot be overstated. According to Schwaiger *et al.* (2011: 61-62), corporate reputation is now 'the ultimate determinant of competitiveness', and it demonstrates that the share of intangible assets for many firms can be as high as 75%. In the Ipsos MORI (Market & Opinion Research International) Captains of Industry Survey of 2008, 88% of the CEOs interviewed subscribed to the view that reputation will be of increasing importance,

while 83% agreed that companies will continue to invest in reputation management (*Ipsos MORI's Reputation Council Insight & Ideas*, 2009).

However, corporate reputation cannot be properly managed unless it is measured with an instrument that demonstrates sufficient construct validity in the context for which it has been developed. One would hope that because clients are one of the key stakeholder groups in any organisation, such an organisation would want to measure its corporate reputation from the viewpoint of this selected stakeholder group in order to obtain a valid 'corporate reputation score'. The rigorous measurement of corporate reputation has, however, remained problematic up to now – particularly in the service industry and from the perspective of clients.

From a managerial perspective, the outcome of this study is a proposal that large service organisations should measure their client-based corporate reputations along five dimensions. These five dimensions are *Emotional appeal, Corporate performance, Social engagement, Good employer* and *Service points*. Managers of service organisations will have to ensure that their clients score them high on all of these dimensions.

One of the most significant outcomes of this study is the knowledge of the areas (dimensions) on which to focus when managing client-based corporate reputation. In short, managers responsible for an organisation's reputation will have to ensure that there is an adequate emotional link between the organisation and its clients, and they will have to manage and highlight the organisation's contribution in the social environment. They will also have to demonstrate the link between their management team and sound financial performance, treat their employees well and ensure that their online service points meet clients' expectations.

Proper measurement permits proper management. By using the proposed instrument, managers will be able to track their corporate reputation over time both overall and at the level of the five dimensions separately.

The impact of a range of both internal and external influences can change the relevance of these dimensions over time. An organisation that has just experienced a bruising employee strike, with the accompanying negative media publicity, may want to assess the impact of these types of events on a variety of outcome variables such as brand equity and word-of-mouth. Similarly, service organisations that devote a considerable proportion of their resources to social engagement activities may want to assess their long-term effect on the beliefs and attitudes (corporate reputation scores) of their clients or measure these commitments against the financial bottom-line of their organisations over time.

9.5.2   Recommendations for further research

Because service organisations nowadays make up a large percentage of business worldwide, it could be valuable to repeat this study with other types of large service organisations such as mobile telecommunication services or consultancies. Although the researcher believes that this

study was a good start to identify the dimensions of corporate reputation for services, no claim could be made that the results would be exactly the same, or that the instrument would be valid for all types of service organisations. One suspects that the dimensions would at least partly differ in the case of smaller service industry organisations such as legal services or tour operators.

Because this study was limited to two sectors in the service industry only, no claims could be made as to the applicability of the results in other service sectors (such as legal practices or the mobile telecommunications sector) or other industries (manufacturing or agriculture). As indicated earlier, further research is needed to investigate other service sectors such as non-profit organisations and state-subsidised organisations. Further research is required to ascertain to what extent clients of other service industries form their reputations differently from those in the chosen two sectors – banks and airlines – in services. It could be expected that the formation of corporate reputation and the dimensions constituting corporate reputation would differ among clients of organisations in other sectors and industries to some extent. Similarly, it could be predicted that because of the increased media exposure that large organisations receive and the ability of large organisation to advertise their financial results and services more prominently, their clients generally would receive more information about these organisations than about smaller ones. Large organisations might, on the other hand, also be subject to more scrutiny, resulting in different criteria when being judged from a reputation perspective.

Further research investigating the dimensions constituting the corporate reputation of banks and airlines (or other service organisations) in other countries than South Africa would be most valuable. It has been mentioned earlier that the social dimension and social issues, which resulted in the addition of a new dimension, namely *Social engagement*, is a focal point in South Africa. It could be expected that an emphasis on the natural environment would also feature strongly alongside the social environment in other (developed) countries.

The domain of the construct, namely 'client-based corporate reputation for large organisations', by definition excluded other stakeholders. Further research could focus specifically on the corporate reputation dimensions of stakeholder groups such as employees, investors and suppliers.

9.6   LIMITATIONS OF THE STUDY

This study attempted to make an important contribution to the body of knowledge concerning the measurement of corporate reputation and the measurement of client-based corporate reputation of service organisations in particular. However, as in all empirical studies, certain limitations are brought to light, which should be considered when interpreting results and drawing conclusions regarding the empirical findings of the study. Although certain areas have been explored and a greater understanding arrived at, caution must be taken not to generalise the results too broadly.

No generalisations can be made that the measurement instrument developed could be used in all contexts. This instrument was developed for South African circumstances, i.e. for the environment

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typical in an emerging country. It has been mentioned earlier that the social environment and social issues are focal points in this country. This may explain the emergence of a new dimension, *Social engagement*, while items pertaining to the natural environment were not included in the final instrument.

The instrument was developed in the context of large service organisations and two well-known service sectors were chosen as examples of large service organisations. Although there was strong evidence of invariance across both samples in this study, there are no guarantees that the instrument would be valid for use in all other types of service organisations, such as mobile telecommunications or management consultancies, or any other type of industry such as manufacturing or agriculture.

The domain of the construct, namely 'client-based corporate reputation for large organisations', by definition excluded other stakeholders, such as stakeholders in general, or specific stakeholder groupings such as employees, investors and suppliers. The instrument is thus only valid for use among clients.

9.7   CONCLUDING REMARKS

Managing the corporate reputation of a large service organisation among its clients has become an important issue that could affect the success or failure of such an organisation. To assist such organisations, several recommendations and suggestions have been proposed in §9.5.

Following the horrendous reputational-linked events in the business world over the last decade (the financial crisis of 2008, BP, Andersen, Enron and others), new rules seem to apply. When considering a buying decision, clients seem to care more about their view of the behaviour of the organisation than about its services *per se*. For instance, research has shown that 61% of buying decisions are influenced by company perceptions/reputations and 39% by product-service perceptions (*Lessons learnt from Nola: in the reputation economy, it's the enterprise that matters most,* 2011).

Despite macro-economic setbacks, the creation of wealth in emerging markets such as Brazil, Russia, India, China and South Africa (BRICS) has elevated millions of people into the middle class, and they have become clients of large service organisations such as banks and airlines. These clients have different expectations and different ideas about leadership, their workplace, social engagement by organisations and the like and, as a result, the rules of engagement have changed. Due to new developments such as a strong focus on corporate governance issues and new communication technologies such as social media, direct corporate 'control' is no longer possible. Therefore, the active management of corporate reputation means participating in conversations and exerting an indirect influence on these conversations and interactions. On-going analysis by organisations of the external and internal touch points (of how perceptions such as reputations are formed) is essential and should be guided by questions such as: What do we do?,

How do we behave?, What do we say? and What are others (like the media) saying about us? (see also Van Riel, 2012).

These shifts in terms of the importance of reputational dimensions pointed out in this chapter confirm the contention that corporate reputation is more of an emotional evaluation (attitude) than a rational assessment and that it should be measured as such. This view is confirmed by the shift towards 'social engagement' rather than just 'social responsibility' – an indication of an emotional judgement.

Finally, reputation as a strategic asset should be managed with the same rigour as the other top priorities of an organisation (e.g. finances). Sadly, this is often not the case. CEOs themselves need to accept responsibility for the management of corporate reputation and should not delegate this responsibility to the marketing or corporate communication function. However, all of this is only possible if corporate reputation is well understood and measured by means of a truly reliable and valid measuring instrument. The new 19-item instrument proposed in this study to measure client-based corporate reputation in services has made a contribution in providing such a solution.

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APPENDIX A

QUESTIONNAIRE FOR MEASURING REPUTATION

PHD STUDY: QUESTIONNAIRE FOR MEASURING REPUTATION

I am enrolled for a PhD at the University of Stellenbosch Business School (USB). The purpose of the study is to develop a new instrument to measure corporate reputation from the perspective of clients in the services industry. My promoter is Prof Christo Boshoff and my co-promoter is Prof Eon Smit. Although instruments exist to measure corporate reputation among all stakeholder groups, there is no valid and reliable instrument that measures reputation from the perspective of clients in the services industry. The banking and airline sectors have been chosen as examples of the services industry for this study.

Will you please take part in this study by <u>completing the questionnaire as a client of the banking sector</u> in South Africa? This will take approximately 12-15 minutes. Please <u>click here</u> to take the survey and complete all the questions.

Please complete the survey by <u>Tuesday 20 November 2012</u>.

Your time and attention to this study is sincerely appreciated. If you wish to be updated on the findings of the study, please let me know and I will gladly do so.

Kind regards

MARIETJIE WEPENER

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APPENDIX B

WAVE 1 QUESTIONNAIRE: AIRLINES

		1 = strongly disagree	2 = disagree.	1 = disagreed somewhat	4 = neutral	5 = agree somewhat	6 = agree	7 = strongly agree
COR 3	My airline responds to clients' needs							
GEM 4	My airline seems to pay attention to the needs of its employees							
SER 1	My airline offers high quality services							
MAL 8	My airline's after-sale communication and response is adequate							
CSR 6	My airline adheres to principles of good governance							
SOE 3	My airline reaches out to its social environment							
VIL 1	My airline responds well in a crisis (when having to deal with negative publicity)							
CSR 2	My airline conducts its business fairly, ethically and with integrity							
EMA 2	I admire my airline							
QUM 2	My airline has good structures and systems in places							
SES 5	My airline's online services are user-friendly							
FIP 1	My airline attracts good investors							
CSR 8	My airline adheres to responsible advertising practices							
SES 3	My airline delivers a consistent service at all service points							
VIL 5	My airline and I share a similar set of values							
EMA 4	I trust my airline							
MAL 1	My airline is a market leader							
SER 6	My airline offers reliable services							
MAL 5	My airline is a well-recognised brand							
COR 5	My airline seems to care about all of its clients regardless of how much money they spend with them							
SOE 1	My airline engages with its stakeholders							
FIP 3	My airline outperforms its competitors financially							
GEM 6	My airline seems to have talented employees							
QUM 5	My airline listens to me							
SER 3	My airline develops innovative services							
EMA 6	I like my airline							
GEM 1	My airline appears to be a good company to work for							
MAL 3	My airline is a leader in its industry							
CSR 5	My airline actively participates in communities where it does business							
SOE 2	My airline responds to the needs of communities							
SER 9	My airline offers solutions that save me time							
VIL 3	My airline has excellent leadership							

COR 7	I feel safe/secure when using my airline's services							
EMA 1	I have a good feeling about my airline							
COR 2	My airline treats its clients fairly							
SES 2	My airline's outlets are clean and tidy							
VIL 7	My airline's leadership is prominent							
SER 5	My airline offers services that fit my needs							
MAL 4	My airline's services are familiar to the public							
GEM 3	My airline treats its employees well							
MAL 6	My airline is open and transparent in its communication							
SER 8	My airline is convenient to do business with							
SES 4	My airline offers services in a professional environment							
FIP 5	My airline appears to make financially sound decisions							
COR 4	My airline treats its clients with respect							
MAL 2	My airline takes advantage of market opportunities							
SER 2	My airline stands behind its services (back-up and after-sale service)							
CSR 4	My airline is committed to social responsibility (social issues)							
SES 6	My airline's online services are effective							
CSR 7	My airline competes fairly in the marketplace							
FIP 2	My airline is profitable							
EMA 3	I respect my airline							
QUM 3	My airline's managers are accessible							
SES 1	My airline's outlets (branches) are conveniently located							
VIL 6	The public knows what my airline stands for							
SER 4	My airline offers services that are good value for money							
VIL 2	My airline has a clear vision of the future							
CSR 3	My airline is committed to protect the environment							
SER 7	My airline regularly introduces new services							
COR 1	My airline has built a good relationship with its clients							
MAL 7	My airline's communication and advertising is effective							
EMA 5	I am proud to be associated with my airline							
GEM 2	My airline has skilled employees							
QUM 1	My airline's management is dynamic							
VIL 4	The leadership of my airline is held in high regard							
COR 6	I am rewarded for my loyalty to my airline							
QUM 6	My airline has good management in place							
SER 10	My airline offers value for money							
QUM 4	My airline provides frequent communication that is valuable to me							
CSR 1	My airline supports good causes							
FIP 4	My airline looks like a company with good prospects for future growth							
GEM 5	Employees seem to be satisfied with my airline							
SES 7	I am satisfied with my airline's service							

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APPENDIX C

WAVE 1 QUESTIONNAIRE: BANKS

		1 = strongly disagree	2 = disagree.	1 = disagreed somewhat	4 = neutral	5 = agree somewhat	6 = agree	7 = strongly agree
COR 3	My bank responds to clients' needs							
GEM 4	My bank seems to pay attention to the needs of its employees							
SER 1	My bank offers high quality services							
MAL 8	My bank's after-sale communication and response is adequate							
CSR 6	My bank adheres to principles of good governance							
SOE 3	My bank reaches out to its social environment							
VIL 1	My bank responds well in a crisis (when having to deal with negative publicity)							
CSR 2	My bank conducts its business fairly, ethically and with integrity							
EMA 2	I admire my bank							
QUM 2	My bank has good structures and systems in places							
SES 5	My bank's online services are user-friendly							
FIP 1	My bank attracts good investors							
CSR 8	My bank adheres to responsible advertising practices							
SES 3	My bank delivers a consistent service at all service points							
VIL 5	My bank and I share a similar set of values							
EMA 4	I trust my bank							
MAL 1	My bank is a market leader							
SER 6	My bank offers reliable services							
MAL 5	My bank is a well-recognised brand							
COR 5	My bank seems to care about all of its clients regardless of how much money they spend with them							
SOE 1	My bank engages with its stakeholders							
FIP 3	My bank outperforms its competitors financially							
GEM 6	My bank seems to have talented employees							
QUM 5	My bank listens to me							
SER 3	My bank develops innovative services							
EMA 6	I like my bank							
GEM 1	My bank appears to be a good company to work for							
MAL 3	My bank is a leader in its industry							
CSR 5	My bank actively participates in communities where it does business							
SOE 2	My bank responds to the needs of communities							
SER 9	My bank offers solutions that save me time							
VIL 3	My bank has excellent leadership							
COR 7	I feel safe/secure when using my bank's services							

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EMA 1	I have a good feeling about my bank							
COR 2	My bank treats its clients fairly							
SES 2	My bank's outlets (branches) are clean and tidy							
VIL 7	My bank's leadership is prominent							
SER 5	My bank offers services that fit my needs							
MAL 4	My bank's services are familiar to the public							
GEM 3	My bank treats its employees well							
MAL 6	My bank is open and transparent in its communication							
SER 8	My bank is convenient to do business with							
SES 4	My bank offers services in a professional environment							
FIP 5	My bank appears to make financially sound decisions							
COR 4	My bank treats its clients with respect							
MAL 2	My bank takes advantage of market opportunities							
SER 2	My bank stands behind its services (back-up and after-sale service)							
CSR 4	My bank is committed to social responsibility (social issues)							
SES 6	My bank's online services are effective							
CSR 7	My bank competes fairly in the marketplace							
FIP 2	My bank is profitable							
EMA 3	I respect my bank							
QUM 3	My bank's managers are accessible							
SES 1	My bank's branches are conveniently located							
VIL 6	The public knows what my bank stands for							
SER 4	My bank offers services that are good value for money							
VIL 2	My bank has a clear vision of the future							
CSR 3	My bank is committed to protect the environment							
SER 7	My bank regularly introduces new services							
COR 1	My bank has built a good relationship with its clients							
MAL 7	My bank's communication and advertising is effective							
EMA 5	I am proud to be associated with my bank							
GEM 2	My bank has skilled employees							
QUM 1	My bank's management is dynamic							
VIL 4	The leadership of my bank is held in high regard							
COR 6	I am rewarded for my loyalty to my bank							
QUM 6	My bank has good management in place							
SER 10	My bank offers value for money							
QUM 4	My bank provides frequent communication that is valuable to me							
CSR 1	My bank supports good causes							
FIP 4	My bank looks like a company with good prospects for future growth							
GEM 5	Employees seem to be satisfied with my bank							
SES 7	I am satisfied with my bank's service							

APPENDIX D

WAVE 2 QUESTIONNAIRE: AIRLINES

		1 = strongly disagree	2 = disagree.	1 = disagreed somewhat	4 = neutral	5 = agree somewhat	6 = agree	7 = strongly agree
SERVE7	Booking a flight online is easy							
EMP7	My airline treats its clients fairly							
PERFORM3	My airline competes fairly in the marketplace							
SERVE1	My airline's service desks are neat and tidy							
ENGAGE3	My airline responds to the needs of communities							
SERVE6	My airline's staff are accessible							
EMPLOY2	My airline treats its employees well							
EMP8	My airline is a top company							
ENGAGE2	My airline is committed to social responsibility (social issues)							
PERFORM5	My airline outperforms its competitors financially							
EMP9	I am satisfied with my airline's services							
SERVE9	Dealing with my airline's staff is a pleasure							
EMPLOY6	My airline looks after the well-being of its employees							
EMP5	I like my airline							
SERVE3	My airline's online services are effective							
ENGAGE4	My airline actively participates in communities where it does business							
PERFORM6	My airline has a sizeable market share							
EMPLOY3	My airline seems to pay attention to the needs of employees							
EMP1	I have a good feeling about my airline							
EMPLOY1	My airline appears to be a good employer to work for							
SERVE2	My airline's online services are user-friendly							
SERVE8	If I experience a problem with my airline's services, it is resolved quickly							
EMP6	My airline offers value for money							
ENGAGE1	My airline supports good causes							
PERFORM4	The management of my airline is held in high regard							
EMPLOY5	My airline has skilled employees							
EMP3	I trust my airline							
SERVE4	The service desks of my airline are conveniently located							
EMPLOY4	My airline trains its employees well							
PERFORM1	My airline appears to make financially sound decisions							
SERVE5	My airline's service is consistent at all service points							
EMP4	I am proud to be associated with my airline							
PERFORM2	My airline has good management in place							

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ENGAGE5	My airline reaches out to its social environment							
EMP2	I admire my airline							

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APPENDIX E

WAVE 2 QUESTIONNAIRE: BANKS

		1 = strongly disagree	2 = disagree.	1 = disagreed somewhat	4 = neutral	5 = agree somewhat	6 = agree	7 = strongly agree
SERVE7	Doing my banking online is easy							
EMP7	My bank treats its clients fairly							
PERFORM3	My bank competes fairly in the marketplace							
SERVE1	My bank's branches are neat and tidy							
ENGAGE3	My bank responds to the needs of communities							
SERVE6	My bank's staff are accessible							
EMPLOY2	My bank treats its employees well							
EMP8	My bank is a top company							
ENGAGE2	My bank is committed to social responsibility (social issues)							
PERFORM5	My bank outperforms its competitors financially							
EMP9	I am satisfied with my bank's services							
SERVE9	Dealing with my bank's staff is a pleasure							
EMPLOY6	My bank looks after the well-being of its employees							
EMP5	I like my bank							
SERVE3	My bank's online services are effective							
ENGAGE4	My bank actively participates in communities where it does business							
PERFORM6	My bank has a sizeable market share							
EMPLOY3	My bank seems to pay attention to the needs of employees							
EMP1	I have a good feeling about my bank							
EMPLOY1	My bank appears to be a good employer to work for							
SERVE2	My bank's online services are user-friendly							
SERVE8	If I experience a problem with my bank's services, it is resolved quickly							
EMP6	My bank offers value for money							
ENGAGE1	My bank supports good causes							
PERFORM4	The management of my bank is held in high regard							
EMPLOY5	My bank has skilled employees							
EMP3	I trust my bank							
SERVE4	The branches of my bank are conveniently located							
EMPLOY4	My bank trains its employees well							
PERFORM1	My bank appears to make financially sound decisions							
SERVE5	My bank's service is consistent at all branches							
EMP4	I am proud to be associated with my bank							
PERFORM2	My bank has good management in place							

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ENGAGE5	My bank reaches out to its social environment							
EMP2	I admire my bank							

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APPENDIX F

WAVE 3 QUESTIONNAIRE: AIRLINES

		1 = strongly disagree	2 = disagree.	1 = disagreed somewhat	4 = neutral	5 = agree somewhat	6 = agree	7 = strongly agree
SERVE2	MY AIRLINE's online services are user-friendly							
ENGAGE2	MY AIRLINE is committed to social responsibility (social issues)							
PERFORM4	The management of MY AIRLINE is held in high regard							
SERVE7	Booking a flight online with MY AIRLINE is easy							
EMPLOY6	MY AIRLINE looks after the well-being of its employees							
EMP3	I trust MY AIRLINE							
ENGAGE1	MY AIRLINE supports good causes							
PERFORM1	MY AIRLINE appears to make financially sound decisions							
REP1*	MY AIRLINE has a favourable reputation							
EMP2	I admire MY AIRLINE							
SERVE3	MY AIRLINE's online services are effective							
PERFORM5	MY AIRLINE outperforms its competitors financially							
EMP4	I am proud to be associated with MY AIRLINE							
EMPLOY2	MY AIRLINE treats its employees well							
ENGAGE5	MY AIRLINE reaches out to its social environment							
PERFORM2	MY AIRLINE has good management in place							
EMP5	I like MY AIRLINE							
ENGAGE3	MY AIRLINE responds to the needs of communities							
EMPLOY3	MY AIRLINE seems to pay attention to the needs of employees							
EMP1	I have a good feeling about MY AIRLINE							
NOM1*	I will continue to do business with MY AIRLINE in the future							
NOM 2*	I will never recommend MY AIRLINE to others							
NOM 3*	I will start using the services of another airline soon							

* These questions were used to assess nomological validity only.

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APPENDIX G

WAVE 3 QUESTIONNAIRE: BANKS

		1 = strongly disagree	2 = disagree.	1 = disagreed somewhat	4 = neutral	5 = agree somewhat	6 = agree	7 = strongly agree
SERVE2	MY BANK's online services are user-friendly							
ENGAGE2	MY BANK is committed to social responsibility (social issues)							
PERFORM4	The management of MY BANK is held in high regard							
SERVE7	Doing my banking online with MY BANK is easy							
EMPLOY6	MY BANK looks after the well-being of its employees							
EMP3	I trust MY BANK							
ENGAGE1	MY BANK supports good causes							
PERFORM1	MY BANK appears to make financially sound decisions							
REP1*	MY BANK has a favourable reputation							
EMP2	I admire MY BANK							
SERVE3	MY BANK's online services are effective							
PERFORM5	MY BANK outperforms its competitors financially							
EMP4	I am proud to be associated with MY BANK							
EMPLOY2	MY BANK treats its employees well							
ENGAGE5	MY BANK reaches out to its social environment							
PERFORM2	MY BANK has good management in place							
EMP5	I like MY BANK							
ENGAGE3	MY BANK responds to the needs of communities							
EMPLOY3	MY BANK seems to pay attention to the needs of employees							
EMP1	I have a good feeling about MY BANK							
NOM1*	I will continue to do business with MY BANK in the future							
NOM 2*	I will never recommend MY BANK to others							
NOM 3*	I will start using the services of another bank soon							

* These questions were used to assess nomological validity only.