



## ORIGINAL PAPER

# Corporate Reputation: Key Issues to Consider When Developing a Measurement Scale

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### Abstract

While the concept of corporate reputation has increasingly attracted the attention of both academic and business scholars in the last few years, a precise and collective agreement upon its measurement is still lacking. This research paper hypothesizes that the measurement of corporate reputation is dependent on the correct understanding attributed to this notion: what it is not completely understood will fail to provide a proper reputation measurement framework. Consequently, there will always be gaps in ensuring the effective management of reputational risk. Against this background, the purpose of the article is to review the existing body of literature and examine a series of issues in measuring the reputation. To grasp the complex nature of this concept, six categories of challenges in the construction of the measurement scale have been reviewed: (1) the fragmented definitional landscape of corporate reputation, (2) reputation from a multi-stakeholder approach, recognizing the differing expectations of multiple groups of stakeholders gravitating around the company, (3) reputation as an attribute-specific assessment – one reputation or many reputations of the same company, (4) reputation as an industry-specific assessment, (5) reputation measurement in a reflective or formative approach, and (6) the multidimensional nature of corporate reputation.

**Keywords:** *corporate reputation; measurement challenges; stakeholders; multidimensional.*

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## **Introduction**

Corporate reputation has become a key topic on the growth agenda on top management of any company. In the past two decades, reputation has acquired a complex significance, emerging from a pioneering stage and becoming a dynamic concept, described from the perspective of numerous research disciplines (Fombrun and van Riel, 1997; Chun, 2005; Chen and Otubanjo, 2013; Bălan, 2015; Chen, Nguyen, Melewar and Dennis, 2015). Academic scholars and business practitioners alike agree on the fact that a favourable reputation generates increased value for the company that holds it (Dolphin, 2004; Walsh and Wiedmann, 2004; Bontis, Booker and Serenko, 2007). More than ever, being better regarded than competing peers has been associated with long-term corporate success (Barney, 1991; Fombrun and van Riel, 1997; Fombrun and Shanley, 1990; Roberts and Dowling, 2002; Walker, 2010; Helm and Tolsdorf, 2013).

Despite the importance and growing interest in the field of corporate reputation, the existing academic literature is very fragmented and fails to offer a consistent and unambiguous theoretical background (Gotsi and Wilson, 2001; Barnett, Jermier and Lafferty, 2006; Walker, 2010; Bălan, 2015). The absence of a well-grounded theoretical framework is creating challenges for academic researchers and practitioners in their attempts to define and measure the concept of corporate reputation. While most scholars would agree that in order “to be managed, corporate reputations must be measured” (Gardberg and Fombrun, 2002: 303), little research has been dedicated to examining the best practices regarding the development and validation of reputation measurement scales. Similarly, Larkin (2003: 5) suggested that “the biggest hurdle in making the case for building, maintaining and managing reputation is how to measure it effectively”. In other words, what cannot be fully and consistently understood will fail to provide a suitable reputation measurement framework, therefore there will always be gaps in ensuring an appropriate management of reputational risk.

Against this background, the purpose of this paper is to explore a series of critical issues in measuring corporate reputation. The theoretical approach taken in this research will address the following gaps: (1) the fragmented definitional landscape of corporate reputation, (2) reputation from a multi-stakeholder approach, recognizing the differing expectations of multiple groups of stakeholders gravitating around the company, (3) reputation as an attribute-specific assessment – one reputation or many reputations of the same company, (4) reputation as an industry-specific assessment, (5) reputation measurement in a reflective or formative approach, and (6) the multidimensional nature of corporate reputation.

## **Key Issues in Measuring Corporate Reputation**

### **Fragmented definitional landscape**

The first challenge that any research effort is faced with when measuring corporate reputation is the ambiguity generated by a continued lack of consensus about the elements describing this concept. Wartick (2002) drew attention upon the need to review and address several problems related to the process of reputation measurement. According to the author, the first aspect refers to the lack of a multi-disciplinary approach in describing this intangible organizational asset. The second element reflects how the term of reputation has been operationalized in research studies, either qualitative or quantitative, and the attributes used to describe it. The third aspect

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corresponds to the need for a continuous investigation and theory building in the field of corporate reputation.

As noted by Fombrun (1998: 338), “a true reputational index – if it is to provide managers and researchers with an accurate barometer of corporate reputations – can only result from sampling a representative set of stakeholders on a conceptually relevant set of criteria”. Despite a general agreement on the importance of corporate reputation in securing the long-term success of any company, many researchers in various academic disciplines have underlined the need for a more robust and unified theory surrounding this concept (Schwaiger, 2004; Chun, 2005; Barnett, Jermier and Lafferty, 2006; Brown, Dacin, Pratt and Whetten, 2006; Walker, 2010; Vlašić and Langer, 2012).

First, corporate reputation is a term of a great multi-disciplinary richness that has inherently determined a fragmentation of its meaning. Over the past decades, corporate reputation has gradually transitioned toward a very complex notion defined in numerous ways by many researchers representing different academic perspectives – *economics, strategic management, sociology, financial-accounting, organizational management* or *marketing* (Fombrun and van Riel, 1997; Chun, 2005; Burlea-Schiopoiu, 2013; Chen et al., 2015, Burlea-Schiopoiu, 2019). The various scholars examining reputation have been divided in offering an integrative theoretical framework and a universal definition has not been found yet (Chen and Otubanjo, 2013). The theoretical perspectives featuring diverse, and sometimes contradictory interpretations of the same concept, have hindered the research efforts aiming at capturing, in one definition, the full spectrum of complexity surrounding corporate reputation. Describing this concept in a multi-disciplinary and inter-disciplinary approach has resulted in a variety of definitions, becoming, paradoxically, a source of ambiguity (Chun, 2005; Bălan, 2015, Bălan and Burlea-Schiopoiu, 2017).

Second, the lack of consensus on the true meaning of reputation can be partially attributed to the interchangeable use of the term with other organizational concepts such as *company image or identity* (Abratt, 1989; Gotsi and Wilson, 2001; Brown et al., 2006; King and Whetten, 2008), *corporate personality* (Davies, Chun, Da Silva and Roper, 2001; Love and Kraatz, 2009; Burlea-Schiopoiu and Idowu, 2016) or *corporate brand* (Hatch and Schultz, 2003; Abratt and Kleyn, 2012). Dolphin (2004: 81) added to the debate and pointed out that the issue of assigning different interpretations to the same construct is far more complex. The author indicated that, in the last decade, several other terms such as *prestige, goodwill, esteem*, or even *positioning* have been used, to some extent, with the same meaning as that of corporate reputation. Walker (2010: 363-369) concluded that not all academic practitioners make a clear distinction in how they relate to corporate reputation, and this is only contributing to the growing confusion about what is a complete and correct understanding of this concept.

### **Multi-stakeholder perspective**

Another major issue in the study and measurement of corporate reputation that warrants a special discussion is the decision to investigate this concept, either from a perspective involving all groups of stakeholders (Fombrun and van Riel, 1997; Fombrun, Gardberg and Sever, 2000), or in a more narrowed approach in which the measurement scale will reflect the differentiating characteristics of various categories of audience (Saxton, 1998; Lewellyn, 2002; Wartick, 2002; Mahon, 2002; Walker, 2010; Puncheva-Michelotti and Michelotti, 2010; Puncheva-Michelotti, McColl, Vocino and Michelotti, 2014; Wepener and Boshoff, 2015; Burlea-Schiopoiu and Remme, 2017).

The dilemma according to which an organization has as many reputations as the number of stakeholder groups is not a recent one and it has been intensively discussed in the literature for the past few years (Fombrun and Shanley, 1990; Bromley, 2002; Helm, 2007). Central to this debate are the different stakeholder groups – *employees, investors, customers, business partners, suppliers or media*, and the corresponding set of dimensions that stands behind the formation process of their perceptions and impressions about any given organization (Burlea-Schiopoiu, 2008; Ali, Lynch, Melewar and Jin, 2014). For example, it may be assumed that a company can hold a poor reputation among its suppliers or investors and, at the same time, to be regarded in high esteem by its customers due to the quality of its products and solutions. Moreover, the hierarchy of importance of the attributes used by each category of stakeholders in the assessment can vary significantly.

A review of the existing body of literature revealed that numerous academic scholars agree on the perceptual nature of reputation, underlying the cumulative assessments, judgments, or beliefs of individuals or observers over time. According to Fombrun and van Riel (1997: 10), corporate reputation is a “collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders”. Following a similar line of thinking, Eberl and Schwaiger (2005: 844) defined the concept as an “attitude-like construct that exists and operates in the general public’s minds”. Ou and Abratt (2006: 243) expanded on these definitions and indicated that corporate reputation “is relatively stable, long-term, collective judgments by outsiders of an organization’s achievements”. From this perspective, the measurement of corporate reputation relies upon a comparable set of indicators used by distinct groups of stakeholders to form their perceptions about a company. The observation that merits further attention is that the criteria considered in evaluation can however vary in importance between the various categories of audience (Helm, 2007; Puncteva-Michelotti and Michelotti, 2010).

Taking on a distinct perspective, other group of authors have argued that different stakeholders may not hold similar perceptions of the same company, or the set of dimensions used to evaluate it can differ and, therefore, a separation between stakeholders is necessary. Gotsi and Wilson (2001: 29) summarized numerous reputation definitions and concluded that it can be interpreted as being “a stakeholder's overall evaluation of a company over time. This evaluation is based on the stakeholder's direct experiences with the company, any other form of communication and symbolism that provides information about the firm's actions and/or a comparison with the actions of other leading rivals”. Bromley (2002: 36) converged to this idea and stressed that “commercial and industrial companies, like political candidates and other reputational entities, have as many reputations as there are distinct social groups (collectives) that take an interest in them”. Chun and Davies (2006: 143) highlighted that “different dimensions of corporate character appeal to different stakeholders”. Walker (2010) stressed the importance of clarifying the group of stakeholders according to which the reputation is investigated. Moreover, he has questioned the managerial impact of any research effort attempting to measure corporate reputation as a cumulative perception of all groups of stakeholders. In this view, the author highlighted that “it is next to impossible for one paper to measure the perceptions of all stakeholders, and any measurement of reputation is likely to represent only a portion of overall corporate reputation” (Walker 2010: 372). The main observation noted after reviewing all these theoretical perspectives and the managerial implications is that stakeholders form their

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perceptions of a company based on their social, cultural, and economic background. Therefore, these perceptions can vary significantly among the diverse groups of stakeholders.

### Reputation as an attribute-specific assessment

Another element to consider when developing the measurement scale is reputation viewed as an attribute-specific construct. Herbig and Milewicz (1995: 24) interpreted corporate reputation as “an estimate over time of the consistency of an attribute or entity”. This estimate relies on the availability, but also on the ability of the entity to perform an activity in a comparable way, while an attribute is a specific part of the entity – price, quality, or marketing skills. Moreover, the authors suggested that a company may be perceived differently by its stakeholders depending on the organizational attribute evaluated, and consequently may hold multiple reputations. Walker (2010: 370) described corporate reputation as “a relatively stable, issue specific aggregate perceptual representation of a company’s past actions and future prospects compared against some standard”. The main implication outlined here is that any company may hold multiple and different reputations, depending on what *attributes* are investigated. These attributes can range from the portfolio of products and services to environmental and social responsibility conduct or regard the profitability and the corporate governance of the company.

The idea stating that corporate reputation is an attribute-based construct, has also been emphasized by other academic scholars. For example, Lewellyn (2002: 451) pointed out that a central question that the top management responsible for building the reputation of a company is required to address is “Reputation for what?”. In an effort to catalogue the reputation definition and capture the similarities and differences between the approaches, Rindova and colleagues (2005) concluded that the two facets of corporate reputation are *the perceived quality* of the company and its *prominence*. While the prominence dimension corresponds to being known in the market place, the perceived quality aspect reinforces “the degree to which stakeholders evaluate an organization positively on a specific attribute, such as ability to produce quality products” (Rindova, Williamson, Petkova and Sever, 2005: 1035). In line with this thinking, Lange, Lee and Dai (2011: 155) interpreted corporate reputation under three distinct types of conceptualizations: *being known*, *being known for something*, and *generalized favourability*. Jensen, Kim and Kim (2012: 144) enhanced this point of view by adding that “reputation is best defined as an attribute-specific and audience specific assessment of an actor because it allows for more nuanced assessments”. The main argument supporting this observation is that a reputation definition encompassing cumulated evaluations of all organizational attributes and groups of stakeholders will only provide vague and meaningless assessments failing to accurately inform the decision-making.

### Reputation as an industry-specific assessment

Another essential element to consider when evaluating corporate reputation is the industry where the company conducts its business operations (Caruana and Chircop, 2000; Podnar, Tuškej and Golob, 2012; Burlea-Schiopoiu and Bălan, 2018). Winn, MacDonald, and Zietsma (2008) define the reputation of an industry (or business sector) as the collective judgments of stakeholders. This definition takes into consideration the assessment of the economic, social, and environmental impact attributed to the industry

over time. Basdeo and colleagues (2006) indicated that corporate reputation should be assessed in connection to the industry in which the organization operates. The authors concluded that the reputation of any company is shaped through its own market conduct, but at the same time, it is highly influenced by its peers' actions.

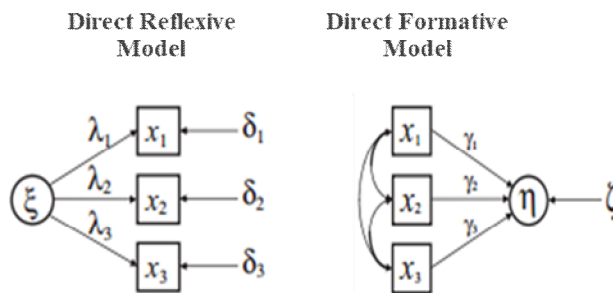
Following the same line of thinking, Mahon (2002) pointed out the need to investigate corporate reputation by first establishing the context of the research. In other words, the author highlighted that the reputation of the business sector should be understood as an “umbrella” reputation. Therefore, it is possible for an organization to benefit from an improved perception only because of the more favourable reputation of the industry in which it operates. On the other side, the author questioned the extent to which a company can differentiate itself from other competitors performing the same activity through its own efforts or, in the end, its reputation remains captive to the overall reputation describing that economic sector (Mahon, 2002). In other words, reputation is an industry-specific assessment, and regardless of the actions taken by the company, it cannot completely differentiate from its peers. To some extent, the reputation of the business sector defines the company-level reputation.

**Reflective vs. formative measurement scales**

Another key problem related to the development of a measuring instrument is the method used to operationalize the concept. Helm (2005: 95) stressed that “the growing body of literature in this area has led to a wide variety of measurement approaches, albeit most publications do not point out the epistemic nature of reputation as a construct”. The author added that “it is not clear if reputation is a formative or reflective construct” and raised the concern that an “incorrect specification of the construct would produce misleading results, which in turn would provide no solid basis for reputation management” (Helm, 2005: 95). Congruent with this observation, Jarvis and colleagues noted that “the choice between formative and reflective models, which substantially affects estimation procedures has hitherto received only sparse attention in the literature” (Jarvis, Mackenzie and Podsakoff, 2003: 200).

As depicted by Figure 1, the existing literature features two methods used to operationalize a concept: the reflective measurement models and formative measurement models (Edwards and Bagozzi, 2000).

**Figure 1. The relationship between constructs and measures in a reflective & formative approach**



Source: Adapted after Edwards and Bagozzi (2000: 161-162)

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The main distinction between reflective and formative approaches relies on the nature and direction of the relationship established between the construct or latent variable – corporate reputation in our case, and the observable variables or measures used to explain it (Edwards and Bagozzi, 2000). In reflective measurement scales, the construct underlies its dimensions, and each observable variable is a manifestation of it. According to this method, the latent variable is specified as cause of its measures. Therefore, the removal of any variable from the measurement model will not affect the overall significance of the construct (Edwards, 2011). At the same time, in a reflective approach, it is essential to test the latent variables regarding the level of internal consistency and, since it starts from the premise that all observable variables represent indicators that equally explain the construct, they can be viewed as being interchangeable (Jarvis, Mackenzie and Podsakoff, 2003). In contrast, in a formative measurement model, the measures determine the latent variable (Edwards and Bagozzi, 2000). The main implication regarding the measures forming the construct is that the removal of any dimension used to model the construct would significantly change the meaning that can be assigned to it (Jarvis, Mackenzie and Podsakoff, 2003; Edwards, 2011). Consequently, the set of observed variables forms a composite or aggregate score, which can be interpreted as an index (Diamantopoulos and Winklhofer, 2001).

The dilemma over the correct epistemic nature of corporate reputation – whether a *reflective or formative* construct, continues to remain a controversial discussion in the existing literature. Moreover, the progress made in the assessment of corporate reputation and its dimensions has been divided by the lack of consensus upon the appropriate measurement approach. On one hand, there is a group of researchers who claimed that corporate reputation should be measured using a reflective method (Fombrun, Gardberg and Sever, 2000; Walsh and Beatty, 2007; Ponzi, Fombrun and Gardberg, 2011). The arguments supporting this perspective suggest that the use of reflexive measures is consistent with the theory of intangible strategic resources that are recognized to create corporate value. Still, they are not directly observable (Bergh, Ketchen, Boyd and Bergh, 2010), are rare, difficult to imitate, or to replace (Barney, 1991). In the case of intangible assets, the body of evidence suggested that it is impossible to capture their whole meaning by using formative indicators. Godfrey and Hill (1995: 523) noted that, only by assuming it is possible to completely observe or measure an intangible asset, its ability to enforce a barrier for other players in the market place would be eroded. Following this stream of thinking, corporate reputation is not fully described by the various organizational measures (the observable variables) – for example, the quality of products and/or services, but instead, they capture only a portion of its complex meaning (Bagozzi, 2007: 231). On the other side, other authors considered that the reflective approach is a suitable method to describe the consequences of corporate reputation and a less appropriate technique to highlight its formation process (Caruana, 1997; Helm, 2005).

### Single-item vs. multi-item measurement

Another critical issue is represented by the underlying multi-dimensional nature of corporate reputation. Multidimensionality of the construct has remained an underexplored territory and continued to pose challenges to researchers in their attempts to develop a reliable and robust reputation measurement tool. Netemeyer, Bearden, and Sharma (2003: 18) argued that the goal of developing an effective measurement scale could not be achieved “without knowledge of the construct’s dimensionality”. Thus,

establishing the dimensionality of the construct represents a crucial step in the scale development process. In this view, it becomes critical to address a set of two elements. The first element that needs clarification is reputation viewed as a single-item construct that can be measured by means of a single score. Or, reputation is rather a multi-item construct (it has multiple facets) and it is important to identify and measure each dimension of it to obtain an accurate assessment of the perceptions that various groups of stakeholders have about an organization? Secondly, the multi-dimensional structure of reputation requires further attention. In other words, is corporate reputation a higher-order latent construct, described through its multiple facets or dimensions? (Jarvis, Mackenzie and Podsakoff, 2003; Agarwal, Osiyevskyy and Feldman, 2015).

Numerous academic scholars have answered the call to add more clarity around the appropriate method to measure the reputation. One group of researchers has postulated that corporate reputation should be interpreted as a multi-item construct (Fombrun, Gardberg and Sever, 2000). Diamantopoulos and colleagues converged to this line of thinking and pointed out that „establishing predictive validity of measures is a major concern in marketing research” (Diamantopoulos, Sarstedt, Fuchs, Wilczynski and Kaiser, 2012: 434). Moreover, the authors went into greater detail to investigate the issue of adopting a certain type of scale in the measurement process. The findings obtained have revealed that, in most cases, under normal practical circumstances, multi-item measures are most indicated to be used because of their higher level of predictive validity compared to single-item scales. This observation is aligned with Churchill's approach (1979: 66), who also noted that the multi-item method offers better results compared to single-item measurement. Nunnally and Barnstein (1994: 67) stressed that multi-item measures provide more accurate results because when individual scores are summed up to obtain a total score, the measurement error tends to decrease. In addition, the authors suggested that the assessment of psychological and perceptual elements, such as corporate reputation, could not be achieved by employing unidimensional scales because they cannot capture the entire amount of complexity. Thus, using multiple items to measure a construct provides support to reduce these issues and simplify the research efforts (Nunnally and Barnstein, 1994).

Bergkvist and Rossiter (2007) compared the level of the predictive validity of single- and multi-item scales of the same construct (for example, the attitude toward ads and attitude toward a brand). They concluded that there are no differences between them, although a large majority of academic practices would have indicated the need to use multiple items. The approach was based on the C-OAR-SE procedure proposed by Rossiter in 2002. According to this procedure, if “the object can be conceptualized as concrete and singular, it does not require multiple items to represent it in the measure, and if the attribute can be conceptualized as concrete, it does not require multiple items either” (Bergkvist and Rossiter, 2007: 175). The findings indicated that single-item measures are equally valid to measure theoretical, abstract constructs and provide a comparable level of reliability in the measurement process. This observation is however challenged by Helm (2005: 95), who outlined that the use of a direct, single-item measure “does not lead to practical insights for reputation management because the sources of a good or bad reputation do not become evident”.

Besides measuring corporate reputation based on a single-item or multi-item approach, it is important to clarify the multi-dimensional structure of the construct. As noted above, in most of the research studies, the epistemic nature of reputation as a construct remained unclear (Helm, 2005). Moreover, little attention has been paid to



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correctly define the relationship between the construct and its dimensions. This supports the observation made by Agarwal and colleagues who stressed that “while conceptually scholars agree that corporate reputation is a higher-order latent (unobservable) construct with first-order directly observable dimensions, there still remains a gap between its conceptualization and corresponding operationalization” (Agarwal, Osiyevskyy and Feldman, 2015: 488).

### **Conclusion**

Today, corporate reputation has acquired a great level of complexity, moving beyond the pioneering stage and becoming a dynamic notion described from the perspective of numerous academic disciplines. Despite a collective agreement that a favourable reputation generates increased added-value for the company, an appropriate management is not possible in the absence of a common interpretation and definition of this concept. Under these circumstances, an effective measurement remains an elusive strategic organizational goal.

Most of the research studies conducted in this field of interest have outlined the positive economics generated by holding a good reputation. Corporate reputation has quickly turned into a vital organizational resource for companies worldwide. This intangible asset is enabling access to sustainable competitive advantages which is rapidly becoming a prerequisite for competing in the global market place. The capability to build, maintain, and enhance a favourable reputation is a major area of research for both the academic and business community. Therefore, the interest in the notion of corporate reputation and how it can be best measured has acquired increased attention. Although much attention has been devoted to deepening the understanding of this concept, the multiple perspectives and theoretical approaches proposed over time in different disciplines of study have led to fragmented measurement efforts.

The theoretical review undertaken in this research paper aimed to bring together several challenges that require a special attention when developing an appropriate corporate reputation measurement scale. The scope of the article is to enhance companies’ understanding of the construct of reputation and facilitate the measurement efforts. Developing an accurate reputation knowledge is thought to be crucial to the company’s ability to identify the reputational risk. It lays the foundation for good management of a potential crisis which is not possible in the absence of a clear and unified definitional landscape.

Specifically, it is critical to address the issue generated by the interpretation of corporate reputation from a multi- and interdisciplinary perspective. How corporate reputation is conceptualized has an impact on the process of establishing, formulating, and implementing a viable and coherent research framework. The multi-dimensional nature of corporate has been identified in this research as another critical issue to address by researchers when developing an effective measurement tool. The analysis has also revealed that there is a contradiction between how reputation is conceptualized, having multiple dimensions, and how it is measured in practice. Establishing the dimensionality of the construct is a key step of the scale development process, but this methodological element has remained an underexplored territory and continues to challenge the research efforts. From a more practical perspective, it becomes essential to recognize the multiple and divergent interests and expectations of diverse groups of stakeholders. Taking into consideration the impact of the overall reputation of the economic sector where the company runs the business operations is equally important when establishing the context

of the research, especially in the case of cross-sectorial research studies. From a methodological viewpoint, another common issue is represented by the method to operationalize the concept. Finally, without providing a correct specification of the corporate reputation – either a formative or reflective construct, the findings obtained would offer a misleading basis for a proper reputational risk management.

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