5 Corporate Reputation

Computer crime causes harm to corporate reputation. For example, when a bank is involved in money laundering or not reporting suspicion of illegal financial activities, the reputation of that bank is seriously damaged. Damage to reputation will result in tangible losses being incurred. This is because reputation damage is often linked to, or is the result of, a perceived impairment in the bank's financial soundness (Harvey and Lau, 2009: 59):

The immediate manifestation of this is likely to be through the actions of depositors as they move to withdraw their funds, as well as from bank counterparties who withdraw lines of credit. Such actions ultimately translate into a withdrawal of shareholder support and subsequent negative impact on the share price.

For a bank, cost associated with compliance with anti-money laundering legislation is justified by the belief that non-compliance will damage reputation with a consequent loss of business, even if the involvement of the institution is unintentional.

5.1 Reputation Defined

Corporate reputation is an important asset or liability bestowed upon a corporation by its stakeholders (Love and Kraatz, 2009). Walker (2010) defined corporate reputation by making distinctions between organizational identity, organizational image and corporate reputation. Organizational identity is the most central, enduring, and distinctive basic character of an organization. Organizational image is outsider judgment based on perception of corporate communication. Corporate reputation represents what is actually known by both internal and external stakeholders. For example, stakeholders perceive a corporation to be corrupt or involved in other forms of white-collar crime.

Corporate reputation is a soft concept. It is the overall estimation and judgment of an organization that is held by its internal and external stakeholders based on the corporation's past actions and expected future actions and behavior. There may be differences in reputation among stakeholders according to their experiences and preferences in dealing with the organization as well as their information obtained from others. Reputation is judgment about vices and virtues, strengths and weaknesses, that stakeholders accumulate, process and reprocess about someone. The circulation of reputational information seems essential to all social interaction, whether conducting a business, achieving recognition or identifying reliable others (Bovenkerk et al., 2003).

Corporate reputation is the collective judgment of a corporation, it is a set of characteristics that are attributed to a firm by stakeholders, and it is visible in the particular type of feedback, received by the organization from its stakeholders, concerning the credibility of the organization's identity claims. However, reactions by stakeholders in relation to a firm are not part of the reputation (Einwiller et al., 2010).

Corporate reputation is a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals. Reputation is a combination of reality such as economic and social performance and perception such as performance perceived by key stakeholders (Hemphill, 2006).

Corporate reputation is a global and general, temporally stable, evaluative judgment about a corporation that is shared by multiple stakeholders. It is the net reaction of customers, investors, employees, and other stakeholders to the company. It is a collective of individual impressions (Highhouse et al., 2009). Similarly, Friedman (2009) defines corporate reputation as a relatively stable, long-term intangible corporate asset that is important for organizational competitiveness. It is a perceptual representation of a company's past actions and future prospects that describe the company's overall appeal to all its key constituents when compared to its rivals.

Three key attributes are emphasized in the definition of reputation: (1) reputation is based on perceptions; (2) it is the aggregate perception of all stakeholders; and (3) it is comparative. Furthermore, (4) reputation can be positive or negative; and (5) it is stable and enduring (Walker, 2010).

Awareness of the link between corporate reputation and white-collar crime has risen substantially in the business world after the joint collapse of Enron and Arthur Andersen. As a consequence, companies have become more sensitive to the value of their reputation. Corporate audiences, including institutional and individual investors, customers and suppliers, public authorities and competitors, evaluate the reputation of firms when making choices and other decisions (Linthicum et al., 2010).

The two main sources of the corporate reputation are experience and information – a person's or a group's past dealings with the company and the extent and nature of their direct and indirect communication with the company. It is argued that a favorable reputation requires not only an effective communication effort on the part of the corporation. More importantly, it requires an admirable identity that can be molded through consistent performance, usually over many years and even decades.

5.2 Resource-Based Theory

According to the resource-based view of the firm, corporate reputation can be considered to be valuable strategic resource that contributes to or harms a corporation's sustainable position (Keh and Xie, 2009). The central tenet in resource-based theory is that unique organizational resources of both tangible and intangible nature are the real source of competitive advantage. With resource-based theory, organizations are viewed as a collection of resources that are heterogeneously distributed within and across industries. Accordingly, what makes the performance of an organization distinctive is the unique blend of the resources it possesses.

Corporate reputation is an intangible resource that influences stakeholder behavior, including employees, management, customers and investors (Friedman, 2009). The resource-based view of the firm places specific emphasis on corporate intangibles that is difficult to imitate. Reputation is one corporate intangible thought to enhance customer satisfaction and loyalty, employee attraction and retention, firm equity, and investor awareness. It is also argued that reputation as a resource enhances bargaining power in trade channels, helps raise capital on the equity market, provides a second chance in the event of a crisis, provides access to the best professional service providers, facilitates new product introduction, and adds value such as trust to goods and services (Highhouse et al., 2009).

Corporate reputation as an intangible resource is both influenced by the extent of white-collar crime as well as influencing the extent of white-collar crime. Competitors that are involved in given value networks contribute to define how each enterprise in an industry can strive for profit. Dion (2009) argues that the capacity to convert corporate intangibles, such as corporate reputation, in a negotiable value could contribute to prevent corporate crime.

From a resource-based perspective, reputation is a valuable and rare resource that can lead to a sustained advantage or a temporary or permanent collapse. A good reputation is difficult to imitate and highly causally ambiguous. Walker (2010) argues that the greater the ambiguity experienced by constituents, the greater the importance of reputation as a resource as it reduces uncertainty by signaling, for example, service quality.

Although reputation is an intangible resource, it is argued that a good reputation consistently increases or sustains corporate worth and provides sustained competitive advantage. A business can achieve it objectives more easily if it has a good and consistent reputation among its stakeholders, especially key stakeholders such as its largest customers, opinion leaders in the business community, suppliers and current and potential employees.

5.3 Determinants of Corporate Reputation

In addition to white-collar crime, there are a number of other determinants of corporate reputation. For example, Highhouse et al. (2009: 1481) applied an organizational impression management perspective on the formation of corporate reputation by asking how reputation judgments are formed:

> What factors are considered? How can reputation judgments be influenced? These are questions that are appropriately addressed by behavioral science. Working from a view of reputation as a social construction – one that indicates the general, shared regard in which relevant constituents hold a company – we review literature that is relevant to the formation and foundation of corporate reputation.

Highhouse et al. (2009) applied a working definition of reputation as a collective of individual impression that necessitated a micro view of impression formation as a foundation for understanding corporate reputation. In their search for determinants of corporate reputation, the researchers distinguished between internal and external factors, where internal factors were separated into substantive and symbolic attributes. Substantive attributes that may harm reputation similar to white-collar crime are lack of social capital, lack of knowledge, lack of product development, and diversification with little substance. Symbolic attributes that may harm reputation similar to white-collar crime are failed advertising, misleading public relations and negative corporate social responsibility policy. External factors that may harm reputation similar to white-collar crime are negative word of mouth and negative media exposure.

In a different study, Friedman (2009) searched for determinants of corporate reputation within human resource management. He found that organizational value is lost when employee competencies and motivation deteriorate since this in turn negatively influence corporate reputation. He argues that effective implementation of the strategic partner, the change agent, the administrative expert and the employee champion human resources management roles can indirectly enhance corporate reputation.

Love and Kraatz (2009) focused only on downsizing as determinant of corporate reputation. The aim of their study was to illuminate reputational change processes and identify the underlying theoretical mechanisms. They found that downsizing exerted a strong, negative effect on reputation, consistently with the character explanation.

Resource-base theory can be applied to understand the role of news media as an influence on corporate reputation. Corporate reputation is influenced by news media when stakeholders are dependent on news media to learn about reputation dimensions of the company. If stakeholders learn directly from experience and observation, then news media are less important. This is in line with media system dependency theory, which proposes an integral relationship among audiences, the news media and the larger social and economic system. Dependency is defined as a relationship in which the satisfaction of needs or the attainment of goals by one party is contingent upon the resources of another party (Einwiller et al., 2010).

5.4 Effects of Corporate Reputation

According to Friedman (2009), corporate reputation is an intangible resource that influences stakeholder behavior, including employees, management, customers and investors. According to Highhouse et al. (2009), reputation is thought to enhance customer satisfaction and loyalty, employee attraction and retention, firm equity, and investor awareness. It is also argued that reputation as a resource enhances possibilities in a number of other aspects. According to Dion (2009), reputation can even prevent white-collar crime.

Keh and Xie (2009) studied how corporate reputation influences customer behavioral intentions. They proposed a model with customer trust, customer identification and customer commitment as the key intervening factors between corporate reputation and customer purchase intention and willingness to pay a price premium. They tested the model empirically and found that corporate reputation has positive influence on both customer trust and customer identification. Furthermore, customer commitment mediates the relationships between the two relational constructs (customer trust and customer identification) and behavioral intentions.

5.5 Theories of Corporate Reputation

In addition to resource-based theory, a number of other theories can be applied to examine corporate reputation. Examples include institutional theory, signaling theory, stakeholder theory, social identity theory, game theory, social cognition theory, economic theory, mass communication theory, impression management theory, and transaction cost theory (Walker, 2010).

To understand how the three most prominently used theoretical perspectives have been applied, Walker (2010) presented them as moving from pre-action, to action, and finally to post-action. With a focus on context and building reputation, institutional theory is often applied in a pre-action stage. The theory is used to examine how corporations gain legitimacy and cultural support within their institutional contexts to build their reputation.

At the action stage, signaling theory includes building images (signals), maintaining, and defending a reputation based on projected organizational images. The theory is applied to corporate reputation to explain how the strategic choices of firms represent signals, which are then used by stakeholders to form impressions of the firms. At the post-action stage, resource-based theory is applied to understand the outcome of a strong reputation. The theory examines how reputation is a valuable and rare resource that leads to a sustained competitive advantage (Walker, 2010).

The self-presentation theory suggests that corporations, like individuals, are concerned with the impression they create among stakeholders. According to Highhouse et al. (2009), there are two self-presentation motives of corporations: (a) desire for approval and (b) desire for status. Like individuals, corporations develop reputation based on their success at getting along with others and getting ahead of others. This socio-analytical perspective of personality focuses on external perceptions where the structure of organizational personality is found in the structure of perceptions.

5.6 Measurement of Corporate Reputation

A construct such as corporate reputation must have an empirical definition closely tied to construct definition. Therefore, measurement of corporate reputation should examine perceived reputation in terms of stakeholders' perceptions, not factual representation. The perceptual nature of the construct reputation is important to measure correctly. Furthermore, as argued by Weber (2010), corporate reputation is an issue-specific and aggregate perception. Reputation is an aggregate perception of all stakeholders. Thus, there are three important considerations for measuring corporate reputation, i.e. reputation for-what, reputation for-whom, and reputation to-whom.

Reputation is a relative construct that can be relative to reputation in the past, relative to competitors at present, or relative to a desired or acceptable reputation level. Measurement of corporate reputation should therefore permit the construct to be both positive and negative.

Since reputation is defined as a relative stable and enduring phenomenon, measurement must be applied accordingly. Weber (2010: 374) finds that this point provides some interesting implications for the measurement of corporate reputation:

> Although it is generally accepted that longitudinal research is more valuable than cross-sectional in the study of corporate reputation because research has demonstrated that it is stable, cross-sectional studies have relatively greater value as compared to similar studies examining other concepts. For example, given that organizational images are relatively short lived, generalized conclusions from cross-sectional studies examining this concept would be questionable. So, while longitudinal studies are preferred, more credence can be placed in the conclusions of cross-sectional studies examining corporate reputation than most other concepts.

A central theme in the reputation literature is the reasoning that stakeholders assign positive reputation to corporations that appear to possess desirable character traits. In this theme, stakeholders views organizations as coherent and purposive social entities rather than mere social aggregates or collectivities. Furthermore, constituencies are especially concerned with organizations' sustainability as partners. Therefore, stakeholders tend to admire corporations that appear to possess character traits such as trustworthiness and reliability (Love and Kraatz, 2009).

5.7 Rebuilding Corporate Reputation

Rebuilding corporate reputation involves both transparency and action. As argued by Bonini et al. (2009), reputation is built on a foundation not only of communications but also of deeds. Sharing information about critical business issues is important, and reputation-oriented actions such as willingness to tackle white-collar crime have to be convincing to stakeholders.

When a company responds to serious reputation threats from white-collar crime, the company must use many other means in addition to formal marketing and public relations. Such means of spreading positive messages about its activities quickly include people with high standing reinforce key strategic messages, interactive web sites, and credible third parties speaking for the company (Bonini et al., 2009).

Dowling (2006: 98) argues that corporate reputation is best communicated through stories, where good corporate stories and reputation are built on a solid platform of valued mission and good morality and behavior:

> This information should be crafted into a corporate reputation story sustainable for both internal and external stakeholders. Corporate reputation storytelling in its long forms (such as books, shareholder briefings, advertorials, web sites, and annual reports) and short forms (in corporate advertising) is art underpinned by science. The art of storytelling involves creating enough mystery and intimacy to result in a more favorable evaluation of the company.

Brønn and Vidaver-Cohen (2009) studied corporate motives for social initiative. They studied motives such as legitimacy, sustainability and bottom line for engaging in social initiatives. Of the four motives in the legitimacy factor applied, they found that the motives to improve image and to be recognized for moral leadership dominated the list. Furthermore, sustainability motives for social initiative were driven by personal managerial values, while profitability motives were driven by the belief that engaging in social initiatives can yield direct financial benefits for the firm, either by generating new revenues or by protecting existing profit levels.

5.8 Social Responsibility

In the three stage model of corporate social responsibility developed by Castello and Lozano (2009), corporate reputation is important as a fundamental requirement at the first stage. Stage 1 labeled risk management is a base stage where corporate social responsibility is seen as a tool to protect reputation value. Within risk management, firms start to develop systems to measure and control environmental and social issues and threats. These control systems involve the planning and social forecasting, preparing for social response and development of the first set of corporate social policies.

Corporate social responsibility is tightly linked to acceptable ethical behavior, since it represents the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce as well as the community at large (Linthicum et al., 2010).

Linthicum et al. (2010) examined the influence of social responsibility on firm reputation during a period of crises. Specifically, they studied the influence of social responsibility ratings on market returns to Arthur Andersen clients following the Enron audit failure. Proponents of social responsibility argue that social responsibility can improve the reputation of the firm, while detractors argue that social responsibility expenditures are a poor use of shareholder money. Results from the study were inconsistent with claims that social responsibility can burnish a firm's reputation in a time of crises and with prior research indicating a positive relationship between social responsibility and market value. This is because the researchers found no evidence that social responsibility mitigated the negative returns to Arthur Andersen clients following the Enron audit failure. The researchers used a matched sample of Arthur Andersen and non-Arthur Andersen firms.

5.9 Corporate Governance Ratings

An influential factor on corporate reputation in a white-collar perspective is corporate governance rating. Corporate governance ratings can be based on categories such as board, audit, charter, executive compensation, and director education. Governance ratings can be generated from reviews of public and private corporate information as well as from interviews with top executives and independent trustees. Such ratings can be influential, for example, with investors on matters related to election of directors and executive compensation. Corporate governance scores also can influence credit rating services, and thereby directly impacting cost of capital (Abdolmohammadi and Read, 2010).

Abdolmohammadi and Read (2010) studied the relationship between corporate governance ratings and the incidence of financial restatement. They selected a sample of 150 US firms that restated their financial statements for 2003 to bring them into conformity with general accounting principles. The researchers found that the sample of restatements had significantly lower governance ratings than the control sample during the restated year of 2003. They also found that the sample of restatement firms improved their governance ratings in the year following the restated year, suggesting that financial restatement leads to improvements in governance mechanisms.