TRŽIŠTE

CONCEPT OF REPUTATION: DIFFERENT PERSPECTIVES AND ROBUST EMPIRICAL UNDERSTANDINGS

KONCEPT UGLED PODUZEĆA: TEORIJSKE PERSPEKTIVE I EMPIRIJSKI POKAZATELJI

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SAŽETAK

Koncept *ugled poduzeća* u poslovnoj se ekonomiji pojavio kao nastavak na istraživanja iz područja sociologije o upravljanjima percepcijama. Razvijajući pojedine aspekte ugleda poduzeća, Fombrun je u svojim radovima doprinio razumijevanju ugleda u poslovnoj ekonomiji. No, u cilju da postane sveobuhvatan, koncept je postao neupotrebljiv jer se nije empirijski razlikovao od povezanih socioloških koncepata. Osim toga taj je koncept bilo vrlo teško empirijski primijeniti jer nije imao ni pouzdanost ni valjanost mjernih ljestvica. Ovaj rad analizira pojam ugleda poduzeća paralelno s povezanim konceptima ekonomskog, simboličkog, kulturnog i društvenog kapitala - koji karakteriziraju svaki

Key words:
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ABSTRACT

The concept of reputation was introduced to management literature from sociological literature on impression management. Fombrun developed an understanding of reputation in business by introducing several aspects of corporate reputation. However, attempts at making it all-inclusive resulted in the concept becoming unusable as it is not possible to distinguish it empirically from other related sociological concepts. Moreover, its measure lacks validity and reliability, thus making the concept of reputation empirically impossible to use. This contribution aims at understanding the concept of reputation by analyzing the items used to measure it, along with the related concepts of economic, subjekt na tržištu. Dakle, u ovom je radu koncept *ugled poduzeća* povezan sa sociološkim idejama od kojih se polazilo pri njegovom definiranju. Rezultati upućuju na to da, nakon što su različiti oblici kapitala stavljeni pod kontrolu, ugled odražava kvalitetu outputa i sposobnost subjekta da dostavi takav output i u budućnosti.

symbolic, cultural and social capital – which characterize every entity in its context. Thus, in this contribution the concept of reputation is drawn back to its sociological roots. Results indicate that, once different capital forms are controlled for, reputation reflects output quality and an entity's capability to deliver such output in the future.

1. INTRODUCTION

Companies have long been concerned with managing their activities so that they can profit by being able to charge a price premium for their products/services. In discussing different sources of such price premium, focus was mainly on the concept of reputation. However, this concept was mostly popularized as an interesting managerial concept, with much less focus on academic rigor. Reputation was introduced to management literature from sociological ideas on impression management. However, sociological literature at the same time discusses different forms of capital an entity can posses which help disentangle the concept of reputation.

This research contributes to literature on reputation in several ways. First, it theoretically analyzes the definitions and role of reputation in different literature streams. Further, it empirically disentangles measures of different capital forms and reputation – all of which present value with which an entity in endowed. Research shows that reputation (which is a perceptual variable on the part of consumers as a key stakeholder group) is not a phenomenon which encompasses both visible and invisible aspects of company activities. Consumers evaluate an entity based on its observable output while all other (unobservable) aspects affect the evaluation of that output and not the value premium directly. The focus in this paper is at consumer level and his/her perspectives, since all the categories mentioned above exist only in relation to the context in which they are observed.[1]

Literature recognizes that reputation can be managed.[2] Based on the fulfillment of stakeholder expectations, an organization's reputation can increase or decrease.[3] This, in turn, influences the public's expectation of the organization in the future[4] – being an indication / a measure of an organization's capabilities and reliability in general.

Due to the importance of the concept, reputation has penetrated from sociology, where it is mostly seen as a social identity,[5] into different areas of business. It has been strongly advocated in the field of economics with the recognition of the importance of players' reputations in the context of game theory.[6] The discipline has since evolved to more strategic perspectives,[7] recognizing reputation as a strategic intangible resource.[8] Furthermore, the concept has been studied in strategy as an isolating mechanism and a VRIN resource[9], and in organizational theory as a manner of dealing with bounded rationality or as a way to reduce transaction costs.[10]

2. DEFINITION OF REPUTATION

2.1. Key challenges in defining reputation

Reputation (on all levels: personal, company, network, country) is not a given value but a value that can and should be managed. In that sense, Resnik[11] focused on corporations, where reputation management is the most easily researched due to the availability of public data, recognizing that a reputation management system has several important steps. First, management (i.e. those in charge of an entity's reputation management) should identify the areas of reputational risk to which an entity is exposed. These risks encompass the reputation risks that are inherent in the business of the organization. For example, an oil company is bound to expect some potential negative reputation as a result of the very business it pursues. However, that does not imply that the issue of reputation should be ignored. There are two goals that a company can set in such situations. The first goal is to be better than the industry average, and the second is to even surpass the reputation of the industry.

Another key challenge in defining reputation is the identification of key stakeholders. Identification is needed since these stakeholders give rise to reputation. As will be discussed later, reputation is not a directly observable but a perceptual category, which resides within the perceptions of different stakeholder groups depending on: the actual situation (what is really being done by the entity), the company's communication activities and the stakeholders' own goals. Thus, it can easily happen that the same entity has a different reputation among different stakeholder groups. For example, a company may be perceived by investors to have a positive reputation due to high profits while the same reason may give rise to a negative reputation, as perceived by its employees. However, although the underlying cause of the reputation is the same, the reasoning is different due to the diverging goals pursued by the two stakeholder groups: while investors seek high profits and returns, employees feel they are being cheated out of higher salaries. It is important to note that the key stakeholders are likely to incorporate perceptions of others.[12] In that sense, an entity defines the relative importance of each stakeholder so that it can focus its efforts and research on the reputation as perceived by key stakeholder group which, in turn, incorporates other stakeholder's perceptions.

2.2. Sociological perspective on reputation

In sociology, reputation is mostly seen as a social identity.[13] And a social identity is something that every entity needs to nurture in order to succeed in a social environment. Besides being seen as a social identity, reputation has an important role in status theory in sociology,[14] where reputation is the main determinant of status in a given society. In many societies reputation can be inherited by the virtue of family and/or cast characteristics.

A term that is often confused with reputation is legitimacy. However, the difference between these terms in reference to an organization is that legitimacy represents "the social acceptance, resulting from adherence to regulative, normative or cognitive norms and expectations" while reputation represents "a social comparison among organizations on a variety of attributes, which could include these same regulative, normative or cognitive dimensions".[15] Thus, to be reputable, entities must do much more than is expected. They must take an active part in shaping their environment, rather than being just passive observers adapting to external influences.

Although substantial research on reputation has been carried out at the company (or even more aggregated) level, it is important to note that its roots are in sociology. Reputation as a concept was developed at the level of individuals and their interactions. In such a context, reputation was actually termed "impression management". Thus, researchers in psychology and sociology have extensively explored impression management, which "helps understand how, when and what types of activities individuals may likely use to manage their own reputations".[16] It is defined as "the conscious or unconscious attempt to control images that are projected in real or imagined social interaction" and was found to result from "an interpersonal motive to impress others or to satisfy external publics" with the aim "to maximize expected rewards and minimize expected punishments".[17]

Work on impression management is mostly based on Goffman's 1959 book, in which stage and actor are shown as an analogy.[18] Stage is a social context in which each entity plays while entities are actors who perform their roles, which might to a certain extent reflect reality. In sociology, stakeholders are referred to as the audience, and different audiences have been found to possess different attitudes, beliefs and expectations about an entity.[19] These perceptual values are created by the stakeholders through their interactions with the entities of their interest. If there was no such accumulation and inheritance, then one could apply Bourdieu's statement that "roulette equals quite precisely the picture of a universe of perfect competition and equal chances, a world without inertia, without accumulation and inheritance of acquired riches and properties".[20] In other words, without history-dependent values such as reputation, the world would be a stochastic merger of unrelated elements.

As implied, reputation can be enhanced by projecting a false image, i.e. an image which is not rooted in reality. However, such activities can have only short-term impacts and can generally backfire greatly when uncovered. Therefore, to ensure enduring reputation, it is important to increase the overlap between a projected image and the actual characteristics.

Literature recognizes several impression management behaviors, such as self-descriptions, opinion conformity, accounts, apologies, self-enhancements, favors etc.[21] All these behaviors tend to create certain perceptions of an entity. This idea in the roots of reputation discussion implies certain drawbacks of modern approaches to reputation. Such behaviors which lead to impression management (i.e. reputation) cannot be used as measures of that concept, as will be discussed later. Thus, the only items that should empirically remain in the measure of reputation are those pertaining to the perceptions of an entity and not its actual behaviors.

2.3. Accounting perspective on reputation

Stakeholder theory argues that managers should make decisions taking into account the interests of all company stakeholders.[22] Jensen[23] also argues that "long-term market value becomes the scorecard that managers, directors and others use to assess success or failure of the organization" and that a "firm cannot maximize value if it ignores the interest of its stakeholders". He also states that profit is not the most important goal for firms, which is the view rooted in economics and finance. This view stems from the idea that purposeful behavior requires the existence of a single-valued objective function (profit), which needs to be maximized. It is labeled the value maximization theory. However, stakeholder theory states that organizations should maximize value for all stakeholders and that social welfare is maximized when all organizations in an economy attempt to maximize their own current total market value. In this perspective profit is seen rather as a short-term goal, which has gained importance as a result of management compensation schemes.[24] Although it is interesting, there are some generally recognized limits of the stakeholder theory. First, it contains no conceptual specification of how to make the tradeoffs between stakeholders – thus, there is no criterion for decision-making. Second, it still leaves the possibility for managers to follow their own private interests. The stakeholder approach exhibits problems because it results in increased agency costs in the economic system.

There is a general problem of linking non-financial measures to financial performance.[25] It has also been shown that the systems of non-financial measures are more reliable determinants of firm performance than the individual measures themselves.[26] The balanced scorecard method was popularized by Kaplan and Norton[27] and has been widely used since then because it implements stakeholder theory, linking business decisions and outcomes and, thus, helps take strategic decisions.

2.4. Strategy perspective on reputation

Rumelt stresses the importance of isolating mechanisms which "generalize the concept of mobility barriers and link it to unique firm characteristics such as the possession of idiosyncratic capital".[28] He also defines several types of isolating mechanisms, out of which most encompass reputation as a concept: (a) reputation is seen as the idiosyncratic capital of an entity, which has an impact on its sustainable competitive advantage; (b) one of the unique resources of companies is surely reputation; (c) there is causal ambiguity in reputation development, which provides a longer-lasting isolating mechanism and

(d) reputation requires idiosyncratic investments, which cannot be transferred to other industries because reputation is built for specific aspects in the eyes of specific stakeholders.

With the growing importance of a resource-based view, strategy scholars have started to recognize resources as key explanatory variables of the differences in firm performance. Barney[29] defined firm resources as all assets, capabilities, organizational processes, firm attributes, information, knowledge etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness. Reputation is indicated as one of the most important components in social complexity following the research of Porter[30] and Klein and Lefler.[31] Carmeli and Tishler[32] confirm the importance of reputations as a critical resource, which provides a path-dependent unique bundle of core resources resulting in a sustainable competitive advantage.

Miller and Shamsie[33] define resources according to Wernerfelt[34] and state that they include anything that might be thought of as a strength or weakness of a given firm and, thus, could be defined as the tangible or intangible assets which are tied semi-permanently to the firm. Wernerfelt groups organizational resources into those of a physical, human, capital, financial, technological and reputational nature.

Barney[35] says that critical resources are accumulated rather than acquired in "strategic factor markets". He states that accumulation is more appropriate than purchase due to specificities resulting from: time compression diseconomies, asset mass efficiencies, inter-connectedness, asset erosion and causal ambiguity.[36] The strategic factor market was defined by Barney[37] as "a market where the resources necessary to implement a strategy are acquired". These markets can exist as imperfectly competitive due to possible different expectations of different players about the future value of a strategic asset. An important idea by Barney[38] is that all assets can be bought and sold. He specifically states that reputations should be viewed as reputations for something, e.g. for quality, toughness etc. The only way to purchase reputation for something is not just by taking over the brand but by purchasing components, which provide reputation for a certain element (e.g. hiring the most cited professors to increase the reputation for research potential of a business school). Arrow[39] argues that assets such as reputation have a "real, practical economic value" but that trading them is technically hard and its meaningfulness questionable. Similarly, Williamson[40] claims that the idiosyncratic nature of a firm's assets, such as reputation, makes them non-tradable, implying that such assets are the result of historical conditions which accumulate to final values. Caves[41] also claims that there are certain factors which cannot be traded although he does not specifically mention which assets exhibit such characteristics. Dierckx and Cool[42] find that, for example, "reputation for quality may be built (rather than bought) by following a consistent set of production, quality control … over some period of time ... The common element … is that the strategic asset is the cumulative result of adhering to a set of consistent policies over a period of time. Put differently, strategic asset stocks are accumulated by choosing appropriate time paths of flows over a period of time." The same authors analyze these ideas further and illustrate a distinction between stocks and flows of assets with the bathtub metaphor. The water in the tub (stock) is presented by the current value of the reputation; this stock is the cumulative result of flows of water into the tub (investments in consistent elements building up reputation) and out of it (depreciation and unexpected events negatively influencing reputation). It is very important for reputation that "while flows can be adjusted instantaneously, stocks cannot". Thus, strategic asset stocks are accumulated by choosing the appropriate time paths or flows over a period of time. The same authors[43] define the characteristics of critical or strategic asset stocks: non-tradability, non-imitability and non-substitutability. Imitability is characterized by: time compression diseconomies (which are a source of early-mover advantage), asset mass efficiencies (the more of some asset you have, the better the result from an incremental increase will be), interconnectedness of asset stocks (accumulation of one stock can depend on the level of other stock), asset erosion (all asset stocks decay in the absence of adequate "maintenance expenditure") and causal ambiguity (not all variables in the stock accumulation are controllable/identifiable).

2.5. Network perspective

A network-based view, which surrounds the analyzed organization, is gaining importance in developing reputation. This concept is relatively new although it was indirectly introduced by Fombrun and Shanley,[44] who stated that "actions of institutional investors and media accounts heavily condition … firm's reputation". It is recognized that entities can acquire other entities' reputation by networking with them.[45] The idea on networking grounds its ideas on transaction cost economics,[46] social exchange theory[47] and resource dependence theory.[48] Anderson et al[49] define the concept of network identity where, if a firm or a person is a part of reputed network, then their value depends also on the network they belong to. Reputation management is important because of the development of the importance of long-term networks,[50] which base their membership and connections on the members being reputed for certain aspects which collectively make up the reputation of that network.

2.6. Organization theory perspective on reputation

Simon[51] developed the idea of bounded rationality which arises due to: (1) information costs and limits to computational capabilities; (2) knowledge reliability and validity (unforseeability of contingencies, subjectivity and fallibility of observations, infinite alternatives and objectives, imperfect communication); (3) paradoxes of social choice and conditions of impossibility of conflict resolution. Classical concepts of rationality (how people make decisions): (a) max-min rule – assume that whatever alternative is chosen the worst possible outcome will ensue, you select the maximum of the minimum payoff; (b) probabilistic rule – maximize the expected value of payoff with the known probability distribution; (c) certainty rule – select the behavior alternative whose outcome has the largest payoff; (d) for simple payoff functions: search for a set of possible outcomes such that payoff is satisfactory, search for a behavior alternative whose possible outcomes are in all outcomes; (e) search for a subset of outcomes such that payoff is satisfactory. It is important to make certain dynamic considerations: The aspiration level may change from point to point in this sequence of trials; the more persistent the organism, the greater the role played by the adjustment of alternatives; models discussed so far are dynamic only in a sense that the aspiration level at time *t* depends upon the previous history of the system, and payoffs in a particular trial might also depend on the alternatives chosen in previous trials.

It is precisely due to these bounded rationality constraints that people often use heuristics when making decisions.[52] Reputation stems from the very idea that certain companies will have a higher probability of being selected when heuristics are used. In particular, reputation can be seen to violate the representativeness and availability aspects of judgments under uncertainty.[53]

In addition, one could consider Williamson's[54] concept of **asset specificity**, that is a "degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value". In this sense, reputation is truly an asset specific to a certain entity although it could be argued that reputation can be correlated if more entities co-organize communication.

From the cultural perspective,[55] one might view reputation as influencing mental programs, defined as stable components leading to the same person showing more or less the same behavior in similar situations, and do so at universal, collective or individual level. If culture is taken to the firm level, then organizational culture as characterized by Ouch and Wilkins[56] can be seen to be strongly influenced by reputation.

From a transaction cost perspective,[57] a positive reputation has been argued to reduce transaction costs because searching costs become lower and the entity is monitored and evaluated more easily because reputation implies visibility and trust.[58]

From a legitimation perspective, one could see reputation as social legitimation in the context of economic exchange, already known from the institutional theory of organizations.[59] As Starbuck[60] describes this relationship, "organizations need legitimacy, in order to attract members, to obtain credit and funds, and so on. Legitimacy is won by conforming to societal ideologies about how organizations should work."[61] That is, legitimacy is received if reputation is at a satisfactory level as a minimum.

Lastly, reputation is often used to focus on a single attribute, such as the concept of power and access to resources, indicating that reputation positively influences the power of an entity within a given niche.[62] Bromley stresses the connection between the theory of evolution and reputation through analysis of the influence of competition in a socio-economic context on the lifecycles of corporate reputations. In order to adequately manage reputations, organizations must define target stakeholders which will ensure their prosperity with the development and/or disappearance of niches – thus, companies need to incorporate adequate adaptability. So, in his view, the competition for reputational space is a "form of evolutionary selection that leads to the diminution or elimination of firms that do not have the necessary attributes and strategies while permitting other firms to thrive to a greater degree".[63] He also introduces the concept of inertia since reputations, especially well-established ones, have a certain "reputational drag", which has a very important outcome: having a good reputation can help entities "survive" periods of difficulty, giving them time to equalize their reputation and the factual situation (i.e. to live up to the expectations of stakeholders).

2.7. Robust conceptual definition of reputation

A more generalist perspective defines reputation as "stakeholder's overall evaluation" of an entity over time, based on stakeholders' direct and indirect (surrogate) experiences and any other form of communication and symbolism that provides information about an entity's actions and/or a comparison with the actions of other leading rivals.[64] In that sense, such a perspective stresses several important aspects of reputation: (1) it is an evaluation from the stakeholders' perspective; (2) it encompasses both direct experiences (e.g. through direct interaction with the entity or consummation of the entity's output) as well as indirect experiences (e.g. which one gets from different sources that he or she trusts); (3) it is a relative construct, i.e. there is no absolutely reputable entity but, rather, its reputation is assessed in comparison to other entities; (4) it cannot exist if there is no communication (in any form) with the stakeholders since, in that case, it becomes a completely exogenous event and as such is of no significant importance to the entity.

Regarding the first point, it is important to note that there is a discussion on whether reputation is: (a) an organizational construct, referring to a set of assets, or (b) a psychological construct, relating to the perceptions and evaluations of an entity by a certain stakeholder.[65] In that sense, can it be built and managed regardless of stakeholders or are the stakeholders' perceptions the only aspect that can be managed while the actual characteristics of the entity are less important? Herbig and Milewics[66] see reputation as the consistency of a given attribute of an entity over time. They even take the routine perspective, viewing it as the willingness and ability of an entity to perform an activity repeatedly in a similar fashion. However, it is clear that this cannot be the case since reputation can be managed; thus, it implies not only existing routines but to an even greater extent a dynamic capability to advance toward a certain goal and communicate it well to the interested stakeholders. The reconciling approach is also the most insightful, and comes from sociology (as previously discussed). In that sense, reputation management implies both the management of actual entity characteristics and the management of stakeholders' perceptions (through communication, direct and indirect experiences).

The business sector has benefited greatly from gaining an understanding of reputation. It focuses primarily on corporate reputation, which is most often defined according to Fombrun et al.,[67] who define it as a multi-dimensional collective construct that describes the aggregate perceptions of multiple stakeholders about a company's performance. In that sense, corporate reputation is determined by different stakeholders' perceptions of how well a company is performing on different (financial and non-financial) aspects. Since it is collective in nature, reputation is an "aggregation of a single stakeholder's perceptions of how well organizational responses are meeting the demands and expectations of many organizational stakeholders".[68] In that sense, reputation is a result of an aggregation process, which incorporates diverse information used by the consumer to form a perception of the organization.[69]

A concept that is often mistaken for reputation is image. However, to differentiate the two, one can say that image is perceived by various stakeholders based on different values, expectations and experiences while reputation is the aggregate, overall attractiveness of the firm to all constituents.[70] Thus, entities managing reputation must manage a delicate balance between various stakeholders.

Deephouse[71] finds that reputation is produced by the interactions of an entity with its stakeholders, and by information about the entity and its actions circulated among stakeholders, including specialized information intermediaries. In that sense, reputation, unlike some related concepts, is created through the interactions of multiple sources, all of which have their own reputations that should also be considered.

Arriving at a definition of reputation is hard; it remains a substantial issue requiring clarification.[72] Reputation is elusive,[73] fragile resource[74] which changes over time,[75] yet it enjoys relative stability, reflects cumulative investments[76] and exists as a concept distinct from other organizational behavior constructs.[77]

Simply put, reputation is an outsider's subjective judgment of an organization's qualities in terms of its (perceived) past performance.[78] Carmeli and Tishler[79] define reputation as an intangible resource, representing an overall assessment of the firm's current assets, position and expected future performance. The primary aspect of reputation is the quality of services/products/ideas as the most visible and most discussed aspect.[80]

Reputation can be viewed as the outcome of a competitive process in which firms signal their key characteristics to constituents to maximize their social status.[81] In the study conducted by Fombrun and Shanley,[82] signals influencing reputation included: the firm's risk-return profiles, resource allocations, social responsiveness, institutional ownership, media exposure and corporate diversification. Thus, once again, all these present possible antecedents of reputation rather than its components. Reputation is a set of key characteristics attributed to an entity by various stakeholders.[83]

In the introductory paper for the first volume of Corporate Reputation Review, Fombrun and Van Riel[84] stated that "reputations constitute subjective, collective assessments of the trustworthiness and reliability of firms" and that they have following major characteristics:

- o Reputations are second-order (derived) characteristics;
- o Reputations are the external reflection of a company's internal identity;

- o Reputations develop from prior resource allocations and histories and summarize assessments of past performance;
- o Reputations constitute mobility barriers;
- o Reputations derive from multiple but related images of all stakeholders;
- o Reputations embody two fundamental dimensions of a firm's effectiveness: economic performance and its success in fulfilling social responsibilities.

As it is already clear from the previous discussion, there is no clear understanding of reputation, especially not between different disciplines.

Analyzing the existing literature, it is clear that the primary element of reputation is the quality of services/products/ideas[85] because it is the most visible and most easily evaluated aspect of an entity.[86] Moreover, literature[87] recognizes that reputation is an outcome of a competitive signaling process, thus indicating the role of different forms of capital as its antecedents.

Therefore, a conceptually robust definition of reputation would define it as *a key stakeholder's perceptual representation of an organization's observable past, current and expected, future performance*. It implies evaluation of the *quality and innovativeness of observable output as well as the entity's capability to persistently provide such output.*

3. MEASURING REPUTATION

3.1. Reputation quotient

One of the most noteworthy scales used for measuring reputation is the Reputation Quotient (RQ), developed in 1999 by the Reputation Institute and Harris Interactive.[88] RQ is measured through six dimensions by means of 20 different items, measured on a 7-point Likert scale. These dimensions include: emotional appeal (3 items), products and services (4 items), vision and leadership (3 items), workplace environment (3 items), social and environmental responsibility (3 items) and financial performance (4 items).[89]

3.2. Fortune Corporate Industry report

A second important, widely used indicator of reputation is the Fortune Corporate Reputation Industry Report. It is the oldest analysis of this kind to be conducted yearly since 1984,[90] using 10-point scales for eight dimensions rated by executives, directors and analysts:[91] quality of management, quality of products and services, innovation, long-term investment value, financial soundness, ability to attract, develop and keep talented people, social responsibility and the use of corporate assets.

Fortune publicizes its reputation reports titled Corporate Reputation Industry Reports, or more popularly, America's Most Admired Companies. In that report companies in 63 industries are rated by executives, directors and analysts from a particular industry on a numerical score from zero (poor) to ten (excellent) on eight attributes: quality of management, quality of products and services, innovation, long-term investment value, financial soundness, people management: ability to attract, develop and keep talented people, social responsibility and use of corporate assets.[92] Although the report is a result of very extensive research work, it can be criticized for several things. First, the selection of respondents presents a major drawback because what needs to be valued are perceptions of different stakeholders; however, in this report they only analyze „one side of the story". Further, the report draws on certain theoretical findings to develop these attributes[93] but these should be further developed and logically structured. In addition, Fryxell and Wang[94] provide abundant criticism of the methods used to develop these reports, e.g. the unidimensionality of certain constructs, Fortune's idea that "roughly a half of the overall reputation index can be explained by a company's financial performance over time", the validity of scales etc. The most serious criticism is that this report actually measures only the "financial reputation" of a company because almost all items are directly (logically and statistically) determined by financial performance. Brown and Perry[95] addressed the possibility of removing the financial performance halo from this data. However, whether one might achieve better results by "removing" the halo remains questionable. As Fryxell and Wang[96] state, reputation is much more of a social construct and, thus, a different approach to the problem is vital. However, since business research popularized the concept, it seems that overwhelmingly financial (and, to some extent, marketing) perspective has been taken. Hence, a further development of the field must take into account the social perspective, i.e. analyze different attributes which are differently significant to different stakeholder groups.[97]

3.3. Other measures of reputation

There are many other reputation surveys conducted worldwide, of which Fombrun et al.[98] provide a clear overview. Such surveys include: Manager Magazin's survey (since 1987) of the 100 largest German firms (five attributes: management quality, innovativeness, communication ability, environmental orientation and financial stability); Management Today (since 1991), which launched Britain's Most Admired Companies (nine criteria: quality of management, financial soundness, ability to attract, develop and retain top talent, quality of goods and services, value as a long-term investment, capacity for innovation, quality of marketing, community and environmental responsibility and the use of corporate assets); Asian Business (1992) introduced Asia's Most Admired Companies, surveyed in nine Asian countries according to the following criteria: overall admiration, quality of management, quality of products and services, contribution to the local economy, being a good employer, potential for future profit, ability to cope with a changing economic environment; the Eastern Economic Review (1993) developed Asia's Leading Companies, including such attributes as awareness of the company, leadership, quality of products and services, innovativeness in responding to customers, long-term financial performance and emulation attractiveness; the Financial Times launched Europe's Most Respected Companies list in 1994, subsequently developing it into the World's Most Respected Companies (1998) by surveying across eight criteria: strategy, customer satisfaction and loyalty, business leadership, quality of products and services, profit performance, corporate culture, change management and business globalization; in 1997, Industry Week introduced the 100 Best Managed Companies, analyzing managers with regard to the management of people, society, markets and change; the latest significant survey to have been developed in 1997 by Fortune increased the scope of America's Most Admired Companies to the World's Most Admired Companies, introducing such criteria as the effectiveness of doing business globally. In addition, the Opinion Research Corporation International has developed CORPerceptions reputation research,[99] which analyzes six key dimensions of reputation: competitive effectiveness (management caliber, R&D, financial strength etc.), market leadership, customer focus (good value for money, customer commitment etc.), familiarity/favorability, corporate culture (ethics, social responsibility, quality of employees etc.) and communications (advertising, PR, sponsorships etc.).

Reputation is a truly multidimensional construct[100] and some of the components defined by the cited authors include: product quality and innovation, management integrity and financial soundness. Dollinger et al.[101] find that each aspect/component of an entity's reputation is separately analyzed by stakeholders and the overall reputation is not equal to the sum of its parts but each component is weighted differently by different stakeholders.

Alsop[102] shows a measurement of reputation based on: ethical standards, sincerity and admiration, and respect. Page and Fearn[103] define three main dimensions of reputation: (1) public responsibility: good causes, different, socially responsible, environment, employees; (2) consumer fairness: fair pricing, trust, advertising, products, customers; (3) leadership and success: leadership, innovativeness, CEO, successful. Hill and Knowlton have developed the Corporate Reputation Watch, analyzing the executives' view of the role of reputation management.[104] Components of the Reputation Index by Cravens, Oliver and Ramamoorti include:[105] (a) products/services, (b) employees, (c) external relationships: suppliers, partners, competitors, investors, environment, society, (d) innovation, (e) value creation, (f) financial strength, (g) strategy, (h) culture, (i) intangible liabilities. Satur states that the elements influencing reputation include: quality, communication, experiences, societal responsibility and trustworthiness.[106] The contribution of different factors to explaining the variance of reputation is most significant with regard to trust and service quality, followed by communication and social responsibility.[107]

According to Dhir and Vinen, there are two general approaches to measuring reputation: league tables, rating an entity on various attributes deemed relevant to its success and reputation quotients, which present a multi-stakeholder (or usually only general public) measure of reputation.[108] Important attributes for reputation include:[109] quality of management, quality of products or services, innovativeness, long-term investment value, financial soundness, ability to attract, develop and keep talented people, community and environmental responsibility, and the use of assets.

Using both cognitive and affective components of reputation enhances the reliability and validity of scales.[110] However, all measures of reputation suffer from problems such as the usage of scores on arbitrary dimensions (with no clear reasoning for their selections) as well as the usage of antecedents as measures (i.e. although theoretically certain aspects are discussed as antecedents, they are pushed unjustly to serve as formative measures of reputation). For this reason, using Bourdieu's forms of capital, which can be ascribed to different entities, encompasses different antecedents which were recognized in the literature on reputation and thus enable positioning reputation as their outcome. In addition, it enables reputation to maintain only items that are theoretically implied to be the only true aspects of reputation: stakeholders' perceptions of an entity's current and potential performance on dimensions that can be observed by stakeholders.

The use of Bourdieu's[111] different forms of capital (economic, cultural, symbolic and social) enables an empirical disentanglement of reputation from manageable capital forms that represent antecedents. These capital forms encompass: (a) economic capital – defined as accumulated financial resources and assets,[112] also seen as "productive capital"; (b) social capital – defined as resources, which are controlled on the basis of existing and potential social networks;[113] (c) cultural capital – defined as the favorable cultural traits that an individual entity has, reflected in embodied, objectified and institutionalized advantages that provide a higher status in society[114] and (d) symbolic capital – defined (and measured) as the resources available to an entity on the basis of honor, prestige and/or recognition, resulting from investments of time, energy and wealth into the activities which do not yield a short-term economic return for the entity.[115] The latter three are also termed as "fictitious capital" by Marx. All these forms of capital have a certain level of liquidity – changing one capital form into another.

4. EMPIRICAL ANALYSIS

4.1. Data collection

Research was carried out in Croatia in two stages. First, the goal was to identify the most salient entities for which the research will be carried out.

In that sense, a nationally representative sample was contacted using the CATI method. To ensure the objectivity and quality of data, a market research agency was employed. For the first part of this research 180 respondents were asked to name two companies / entertainers / politicians / media that they considered to have the best reputation and two of each they considered to have the worst reputation. This ensured that only the entities with a certain level of recognition and public presence were analyzed. From the set of all mentioned entities, we selected for further research those that were: top 5% - the most admirable reputation in each category; top 5% - the least admirable reputation in each category; top 5% of "top of the mind" entities for the most admirable reputation and top 5% of "top of the mind" entities for the least admirable reputation.

In order to rank the entities by reputation admirability, the number of times they were mentioned as the entities with a bad reputation was subtracted from the number of times they were mentioned at all. However, since this procedure would lead to canceling out those individuals with highly polar perceptions, i.e. those that are salient as an example of either good or bad reputation, all the entities ranking among the top 5% based on the number of positive recalls and those ranking among the top 5% least admirable companies were also included. This approach to entity selection resulted in a list of eight media, eight entertainers, six politicians and nine companies.

Further research was carried out on the respondents who are highly familiar with the selected entities and, therefore, represent knowledgeable respondents for this research purpose, which is consistent with prior research.[116] Our respondents are the consumers of output produced by the entities considered in this research, which makes them good respondents who are expected to be well-informed about different activities of these entities.[117] Moreover, respondents were selected from the groups selecting the entities considered as key entities. The number of respondents was 276 (68.2% of whom female and 31.8% male), with no systematic differences in responses based on their gender or age.

4.2. Scale analysis

Following the literature in this field, measures were developed to reflect theoretical constructs. Items for the measures were grounded on existing scales, complemented by the items which reflect the theoretical constructs of these different variables and by other items which came up in the in-depth interviews with experts in order to fit the context. At first, a full scale reputation quotient[118] was used for measuring reputation, and measures for different capital forms were grounded on Bourdieu's research.[119]

To test the reliability of the constructs, literature suggests reporting three key measures: composite reliability (CR), average variance extracted (AVE) and the Cronbach alpha (which reflects the internal consistency of measures) (Anderson and Gerbing, 1988), with miminum thresholds being 0.7 for CR and the Cronbach alpha and 0.5 for AVE (Hair, Black, Babin and Anderson, 2005; Dillon and Goldstein, 1984; Nunnally and Bernstein, 1994). These criteria were met by all our measures: social capital ($n=6$, $\alpha=0.924$, $CR=0.928$, $AVE=0.684$); cultural capital ($n=18$, $\alpha=0.972$, $CR=0.979$, $AVE=0.712$); symbolic capital ($n=11$, $\alpha=0.955$, $CR=0.955$, $AVE=0.662$); economic capital ($n=5$, $\alpha=0.892$, $CR=0.896$, $AVE=0.639$) and entity reputation ($n=8$, $\alpha=0.933$, $CR=0.934$, AVE=0,640). The measurement model exhibits the necessary fit within the limits suggested in social sciences,[120] with RMSEA being 0.08 and CMIN/DF=2.189.

Factor analysis, as conceptually expected, loaded most of Fombrun's items onto Bourdieu's different forms of capital, leaving only those related to the entity's output characteristics as a factor relating to reputation. Clearing out the scale provided an important insight into reputation: it encompasses the perceptions of entity's outputs and the perceived capability of the entity to provide such output in the future.

Therefore, although drawing from sociology literature on impression management, reputation was pushed to theoretically include much more than can empirically be distinguished from sociological ideas of different capital forms. Thus, it is necessary to refocus the understanding of reputation by focusing on a coherent perspective which can be analyzed from the perspectives of different stakeholders and which is not already part of other perceptual constructs.

After accounting for different forms of capital, the items that were loading onto the construct of reputation included: This entity is more innovative than its competitors; This entity is more capable than its competitors; This entity is more knowledgeable than its competitors; The outputs that this entity produces are always of very high quality; I consider this entity to be highly capable; This entity has exhibited continuous development; This entity is highly qualified for the work it does; This entity is highly knowledgeable about its work.

5. CONCLUSIONS

In order to make use of the concept of reputation, one needs to differentiate it from related perceptual constructs. This research provides an insight about reputation being only one of the perceptual characteristics of an entity. After accounting for social, symbolic, economic and cultural capital, reputation encompasses the perceived quality of the entity's output as well as its capability to sustainably produce high-quality innovative outputs.

Literature has generally measured reputation through its antecedents as no valid measure of it was available. Therefore, disentangling antecedents from the measure of reputation, it is implied that an entity should manage its different forms of capital to generate a certain reputation in the market. Such reputation is much more than a temporary perceptual value; it generates long-term reputational advantages for that entity as these are based on a careful management of different capital forms.

Limitations of this research indicate possible directions for future research. Thus, future research should focus on confirming/disproving these findings with different samples and contexts. Such an approach would add robustness to the findings. However, findings are not expected to vary significantly, as the focus of research was not on relationships between variables which might vary between contexts, but on the measurement of perceptual categories which tends to be stable across diverse contexts.

Moreover, future research should focus on gaining an understanding of the relationship between different forms of capital and reputation as a dependent variable. This might provide insights into the mechanism that drives reputation. Furthermore, future research should re-establish the influence of reputation on the firm performance.

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12 Balanced perspective on reputation management implies:

$$Reputation = \sum_{i=1}^{N} w_i \left(\sum_{k=1}^{K_i} \delta_k R_k \right)$$

In this formula, *N* is the number of different entity groups. K_i is the number of different segments within each stakeholder group *i*. Further, w_i is the weight an entity gives to each stakeholder group. This weight is multiplied by the reputation that each segment within a particular group perceives (R_k), weighted by the importance of each segment within each stakeholder group (δ_k). As this formula indicates, managing each component separately (w_i, R_k, δ_k) has strong implications for the resulting entity reputation.

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APPENDIX:

Table 1: Selected representative definitions of reputation

Definition of Reputation used	Example(s) of studies
Economics / Game – theory / Signaling perspective	
An attribute or a set of attributes ascribed to a firm, inferred from the firm's past actions.	Weigelt & Camerer, 1988 Hayward & Boeker, 1998 Stuart, 2000
An observer's impression of the actor's disposition to behave in a certain manner.	Clark & Montgomery, 1998
In game theory, the reputation of a player is the perception others have of the player's values which determine his choice of strategies	Weigelt & Camerer, 1988
Reputation presents an indicator of company / product features when lacking information	Grossman & Stiglitz, 1980
Reputations derive from the prior resource allocations managers make to first-order activities likely to create a perception of reliability and predictability to outside observers.	Stigler, 1962 Ross, 1977 Myers & Majluf, 1984
Consumers' expectations and beliefs about a firm's product quality	Shapiro, 1983 Allen, 1984
A rival's perceptions about the likelihood of an incumbent to behave in a certain way	Kreps & Wilson, 1982 Milgrom & Roberts, 1982
Institutional perspective	
Publics' cumulative judgments of firms over time – an overall perception	Fombrun & Shanley, 1990 Roberts & Dowling, 2002
Stakeholders' knowledge and emotional reactions toward the firm	Hall, 1992 Fombrun , 1996 Deephouse, 2000
Set of attributes ascribed to a firm, inferred from the firm's past actions	Weigelt & Camerer, 1988
Management / Strategy Perspective	
Reputations are both assets and mobility barriers because they are difficult to imitate	Caves & Porter, 1977 Chun, 2005
Reputations are a distinct element of industry-level structure	Fombrun & Zajac, 1987
By accumulating the history of firms' interactions with stakeholders, reputations suggest to observers what companies stand for	Freeman, 1984 Dutton & Dukerich, 1991
Reputations are also externally perceived and are thus largely outside the direct control of firms' managers	Fombrun & Shanley, 1990
Reputations are valuable intangible assets because they are inertial	Wartick, 1992 Cramer & Ruefli, 1994
Favorable reputations provide competitive advantage	Rindova & Fombrun, 1999
Company's culture and identity shape its business practices as well as the kinds of relationships established with key stakeholders	Meyer, 1982 Barney, 1986 Dutton & Dukerich, 1991 Dutton & Penner, 1992

Table 1. Continued

Definition of Reputation used		Example(s) of studies
Sociology		
	Collective, social phenomenon associated with, but different from, any individual impressions, which are variously referred to as mental representations, beliefs, attitudes, attributions, images or schemata	Sharpe, 2003
	Collective impressions of the members of a social group about the general disposition of some particular target entity	Bromley, 1993 Sjovall & Talk, 2004
	A prevailing collective agreement about an actor's attributes or achievements based on what the relevant public knows about the actor	Lang & Lang, 1998 Camic, 1992
	A characteristic or an attribute ascribed to an actor based on his past actions	Raub & Weesie, 1990 Kollock, 1994
	Outcome of a competitive process in which firms signal their key characteristics to constituents to maximize their social status	Spence, 1984
	Socio-cognitive processes generate reputation	White, 1981 Granovetter, 1985
	Reputational rankings are social constructions that come into being through the relationship that a focal firm has with its stakeholders in a shared institutional environment	Ashforth & Gibbs, 1990
	Corporate reputations come to represent aggregated assessments of firms' institutional prestige and describe the stratification of the social system surrounding firms and industries	DiMaggio & Powell, 1983 Shapiro, 1987
	Reputations are indicators of legitimacy: they are aggregate assessments of firms' performance relative to expectations and norms in an institutional field	Fombrun & Van Riel, 1997 Chun, 2005
Marketing		
	The estimation of the consistency over time of an attribute of an entity	Herbig & Milewicz, 1995
	Consumers' impressions of a company that is producing and selling a given product or brand	Goldberg & Hartwick, 1990
	Perceptions and beliefs about the firm based on previous interactions	Campbell, 1999 Prabhu & Stewart, 2001
	Public esteem or high regard judged by others	Weiss et al, 1999
	The level of awareness that the firm has been able to develop for itself and for its brands – fame	Hall, 1992 Shamsie, 2003
	Multi-dimensional collective construct that describes the aggregate perceptions of multiple stakeholders about a company's performance	Fombrun, Gardberg, & Server, 2000
	Perceptual representation of a company's past actions and future prospects that describes the company's overall appeal to all its key constituents when compared to other leading rivals	Fombrun , 1996
	Reflection of an organization over time as seen through the eyes of its stakeholders; expressed through their thoughts and words, rooted in trust and ethically shaped over time	Vargin & Koronfleh, 1998
	Reputation presents "pictures in the heads" of external subjects attributing cognitive and affective meaning to the cues received about an object they were directly or indirectly confronted with	Lippmann, 1922

Table 2: Reputation Quotient measure of reputation

Constructs and Measures
Products and Services PS1: Stands behind its products and services PS2: Develops innovative products and services PS3: Offers high quality products and services PS4: Offers products and services that are good value for money (seven-point scale, where 1 means "this item does not describe Company X well" and 7 means "this item describes Company X very well") Corporate Appeal CA1: How do you feel about Company X? (seven-point scale, where 1 means "do not have a very good feeling about the company" and 7 means "have a very good feeling about the company") CA2: How would you rate your admiration and respect for Company X? (seven-point scale, where 1 means "do not admire and respect the company" and 7 means "admire and respect the company very much") Corporate Trustworthiness CT1: How much do you trust Company X? (seven-point scale, where 1 means "do not trust the company" and 7 means "trust the company very much") CT2: Would you trust Company X to do the right thing if it were faced with a product or service problem? (four-point scale, where 1 means "Yes, I definitely would" and 4 means "No, I definitely would not") Social Responsibility SR1: Supports good causes SR2: Is an environmentally responsible company SR3: Behaves responsibly towards the people in the communities in which it operates (seven-point scale, where 1 means "this item does not describe Company X well" and 7 means "this item describes Company X very well") Organizational Performance OP1: Tends to outperform its competitors OP2: Looks like a company with strong prospects for future growth OP3: Has excellent leadership OP4: Has a clear vision for its future OP5: Is managed well OP6: Looks like a company that would have good employees (seven-point scale, where 1 means "this item does not describe Company X well" and 7 means "this item describes Company X very well")

Source: Fombrun, C., Gardberg, N., Server, J.: The Reputation Quotient: A multi-stakeholder measure of corporate reputation, **Journal of Brand Management**, Vol. 7, 2000, pp. 241-255.