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**MUNICH SCHOOL OF
MANAGEMENT**

Institute for Market-based Management
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IMM



Reputation as Intangible Asset: State of The Art and Further Research Opportunities

12th Interdisciplinary Workshop on Intangibles,
Intellectual Capital and Extra-Financial Information
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Institute for Market-based Management

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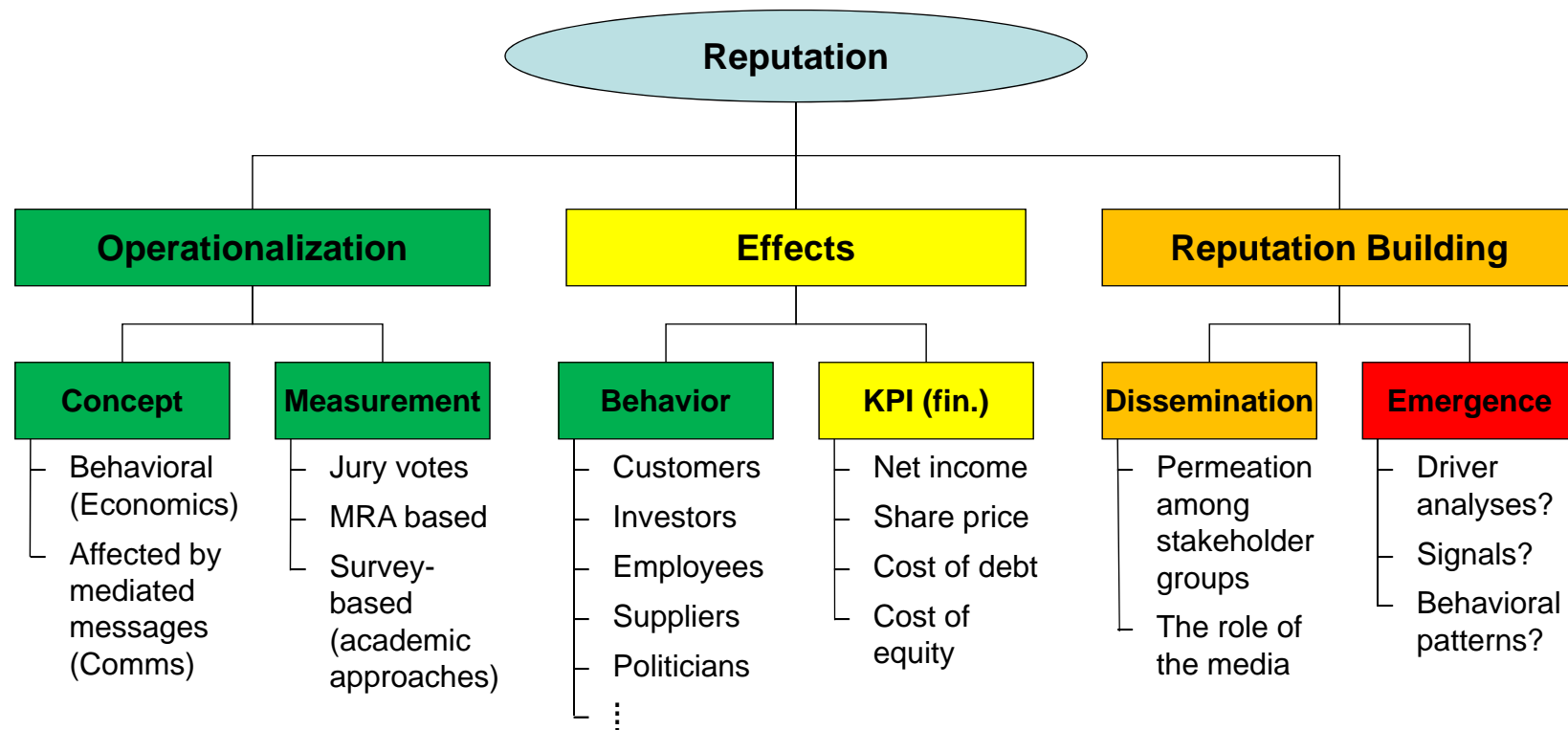
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Corporate Reputation – A Research Map



Operationalization:

Comparing different reputation measurement approaches - VAR (R²) of respective focal constructs:

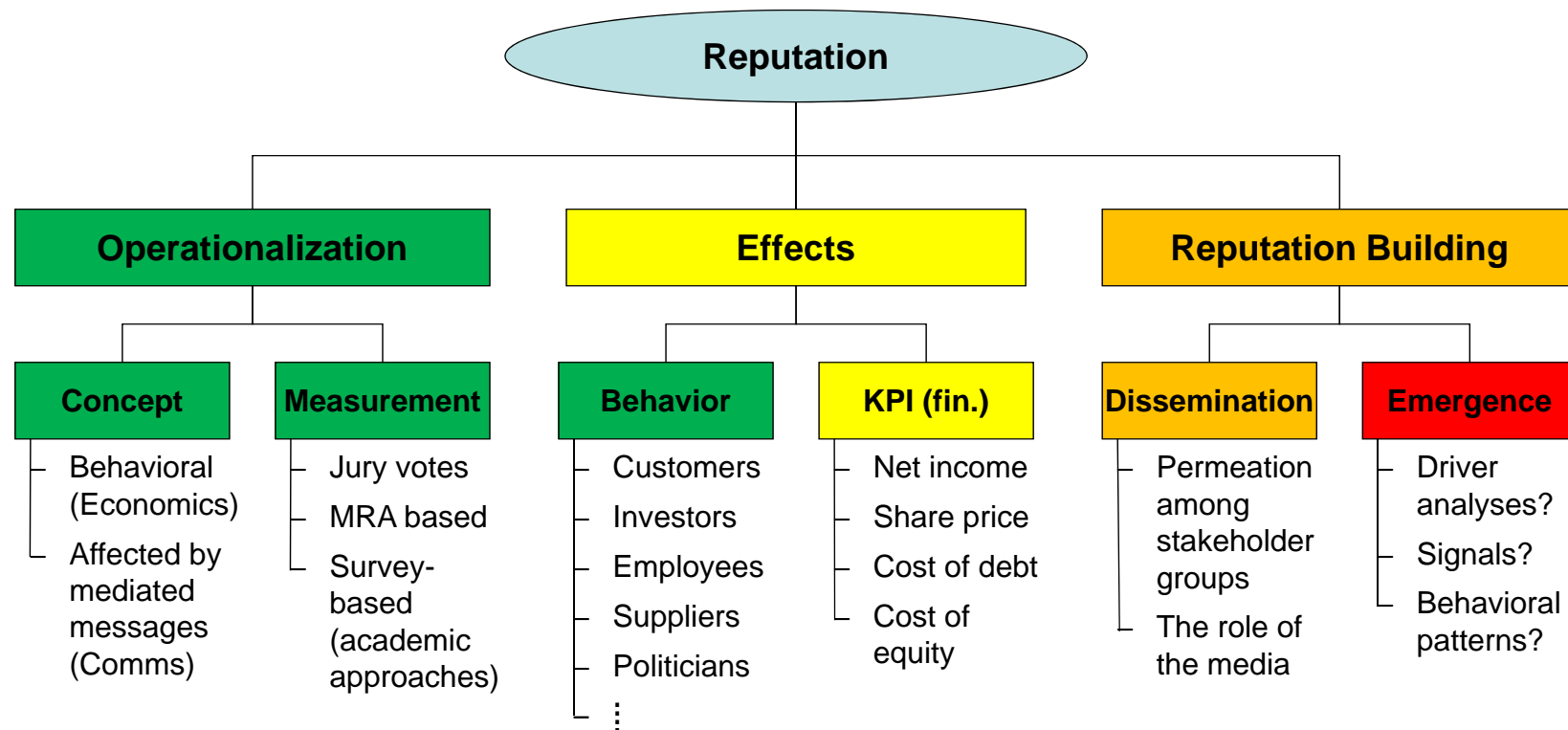
	AMAC	GMAC	RQ	RepTrak	CBR	Helm	Schwaiger
Convergence validity							
Reputation (overall)	52%**	52%**	61%*	57%**	61%*	59%**	62%
Criterion validity							
Cust. Satisfaction	41%**	42%**	72%*	70%**	66%**	57%**	73%
Loyalty	38%**	39%**	71%	66%**	63%**	56%**	71%
Trust	49%**	52%**	85%	71%**	73%**	55%**	79%**
Commitment	34%**	37%**	53%	45%**	41%**	38%**	50%*
Word-of-Mouth	36%**	38%**	69%*	65%**	63%**	57%**	70%

** and * indicate a significant difference between the best-performing approach (printed in bold) and the measure under consideration at a level of 5% and 10%, respectively.

Wilczynski, P.; Sarstedt, M.; Melewar, T. C. (2013): Measuring Reputation in Global Markets - A Comparison of Reputation Measures' Convergent and Criterion Validities, in: Journal of World Business, Vol. 48 (3), 329–339

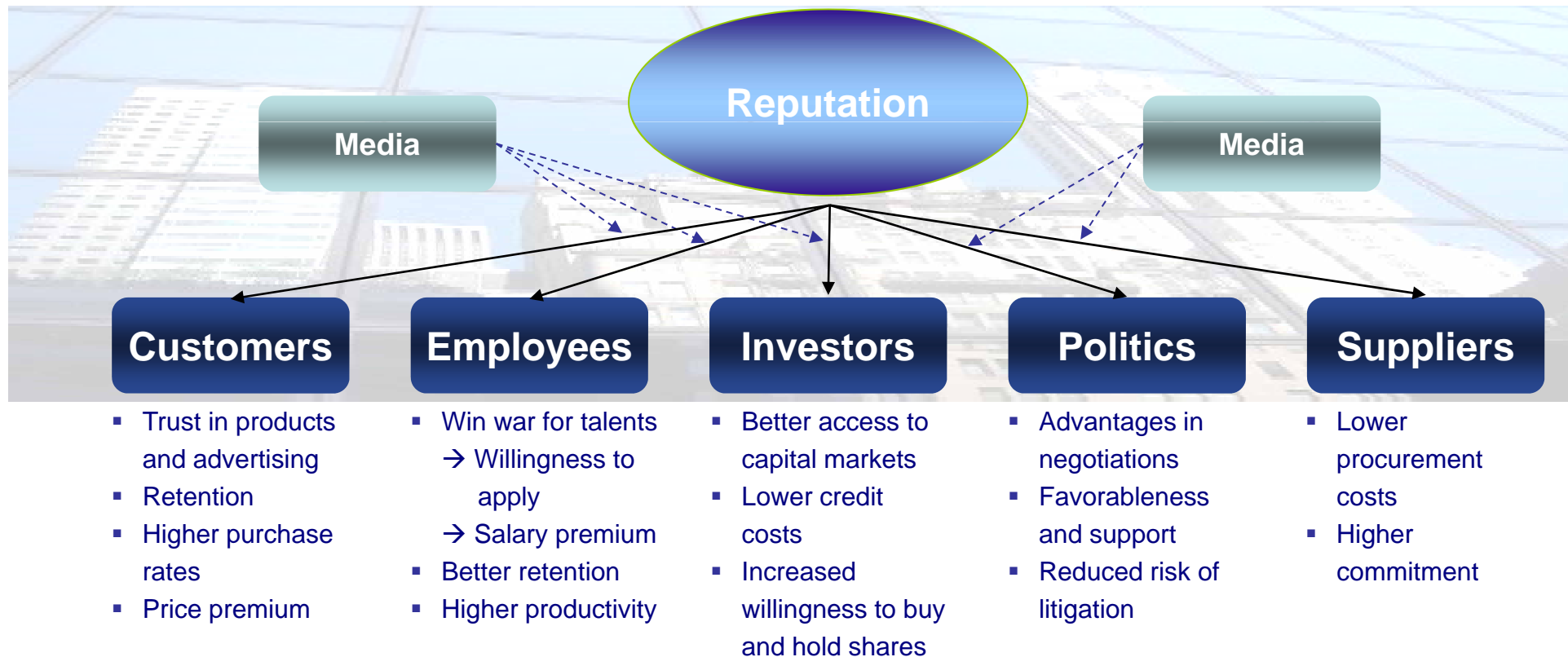


Corporate Reputation – A Research Map





Effects on Stakeholder Groups



References: Pfarrer et al. (2010); Walsh and Beatty (2007); Dowling (2006); Eberl and Schwaiger (2005); Rao et al. (2004); Shamsie (2003); Dunbar and Schwalbach (2002); Mahon (2002); Roberts and Dowling (2002); Frooman (1999); Lafferty and Goldsmith (1999); Compés López and Poole (1998); Srivastava et al. (1998); Deephouse (1997); Caruana (1997); Hunt and Morgan (1995); Amit and Schoemaker (1993); Hall (1993); Peteraf (1993); Yoon et al. (1993); Caminiti (1992); Hall (1992); Sobol et al. (1992); Fombrun and Shanley (1990); Goldberg and Hartwig (1990); McGuire et al. (1990); Weigelt and Camerer (1988); Itami (1987); Beatty and Ritter (1986); Milgrom and Roberts (1986); Shapiro (1983); Shapiro (1982); Klein and Leffler (1981)

Effects on Financial KPI

■ Market Capitalization

- Raithel, S.; Schwaiger, M. (2015): The Effects of Corporate Reputation Perceptions of the General Public on Shareholder Value, in: *Strategic Management Journal* 36 (6), 945 – 956
- Roberts, P.W.; Dowling G.R. (2002): Corporate Reputation and Sustained Superior Financial Performance. *Strategic Management Journal* 23(12), 1077–1094.
- Fombrun, C.J.; Shanley, M. (1990): What's in a name? Reputation building and corporate strategy. *Academy of Management Journal* 33(2): 233–258

■ Net Income

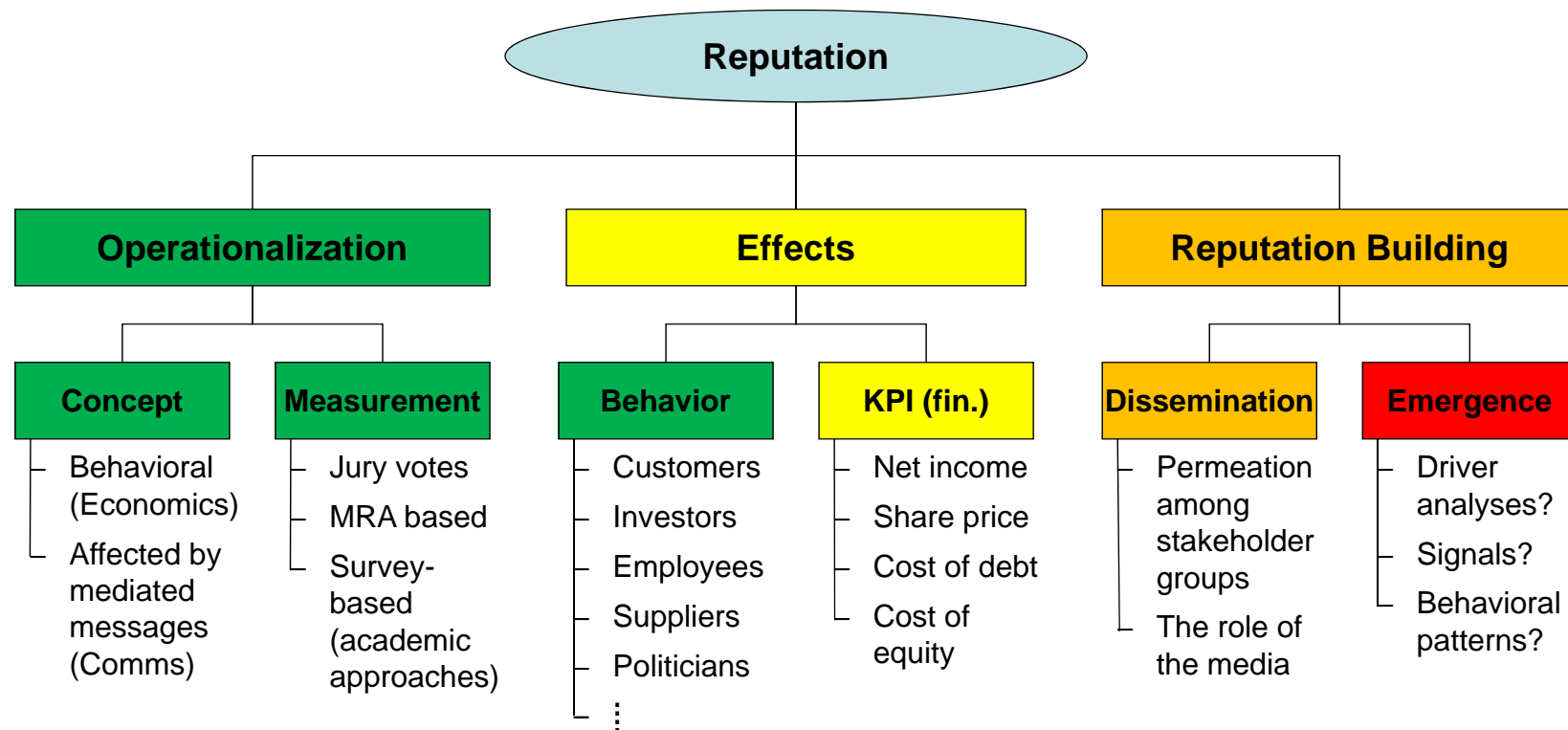
- Eberl, M.; Schwaiger, M. (2005): Corporate Reputation: Disentangling the Effects on Financial Performance, in: *European Journal of Marketing* 39(7/8), 838-854

■ Cost of Capital

- Cao Y.; Myers, J.N.; Myers, L.A.; Omer, T.C. (2014): Company Reputation and the Cost of Equity Capital. *Review of Accounting Studies in press*.
- Himme, A, Fischer, M. (2014): Drivers of the Cost of Capital: The Joint Role of Non-financial Metrics. *International Journal of Research in Marketing* 31(2): 224–238.
- Pfister, B.; Schwaiger, M.; Hofmann, Ch. (2016): Corporate Reputation and the Future Cost of Equity (under review)

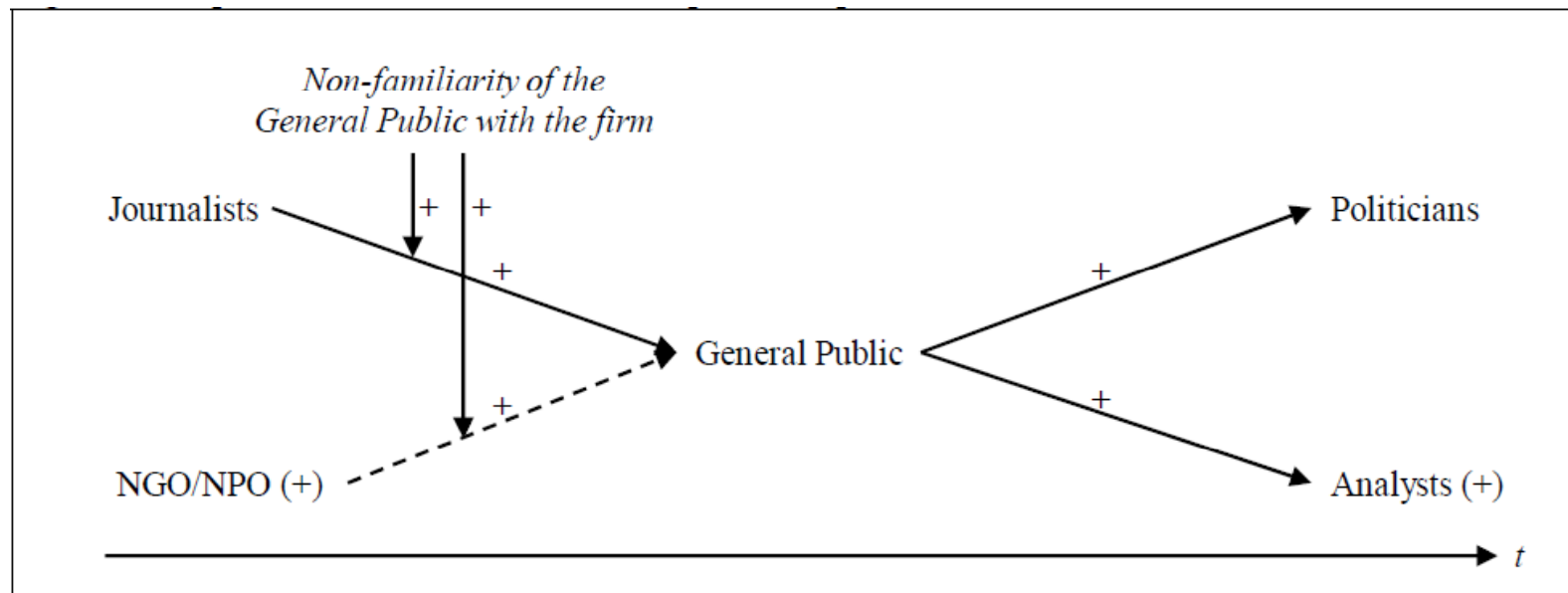


Corporate Reputation – A Research Map





Dissemination/Permeation of Reputation Assessments



Reference: Pfister, B. (2015): Stakeholder Specificity and Diffusion of Corporate Reputation; in: Pfister, B.: Corporate Reputation and the Cost of Capital, cumulative dissertation, Munich, 7-78



How to Build and Manage Corporate Reputation?



Corporate Reputation

- Higher willingness to pay & repurchase
- Higher satisfaction
- Higher loyalty & willingness to recommend



e.g. Podolny (1993); Andreassen & Lindestad (1998); Rindova et al. (2005); Walsh et al. (2009)

- Higher willingness to apply
- Higher quality applicants
- Lower salary demand



e.g. Roberts & Dowling (2002); Turban & Cable (2006); Schloderer et al. (2009); Schloderer (2012)

- Higher RoA
- Higher profits
- Lower cost of capital

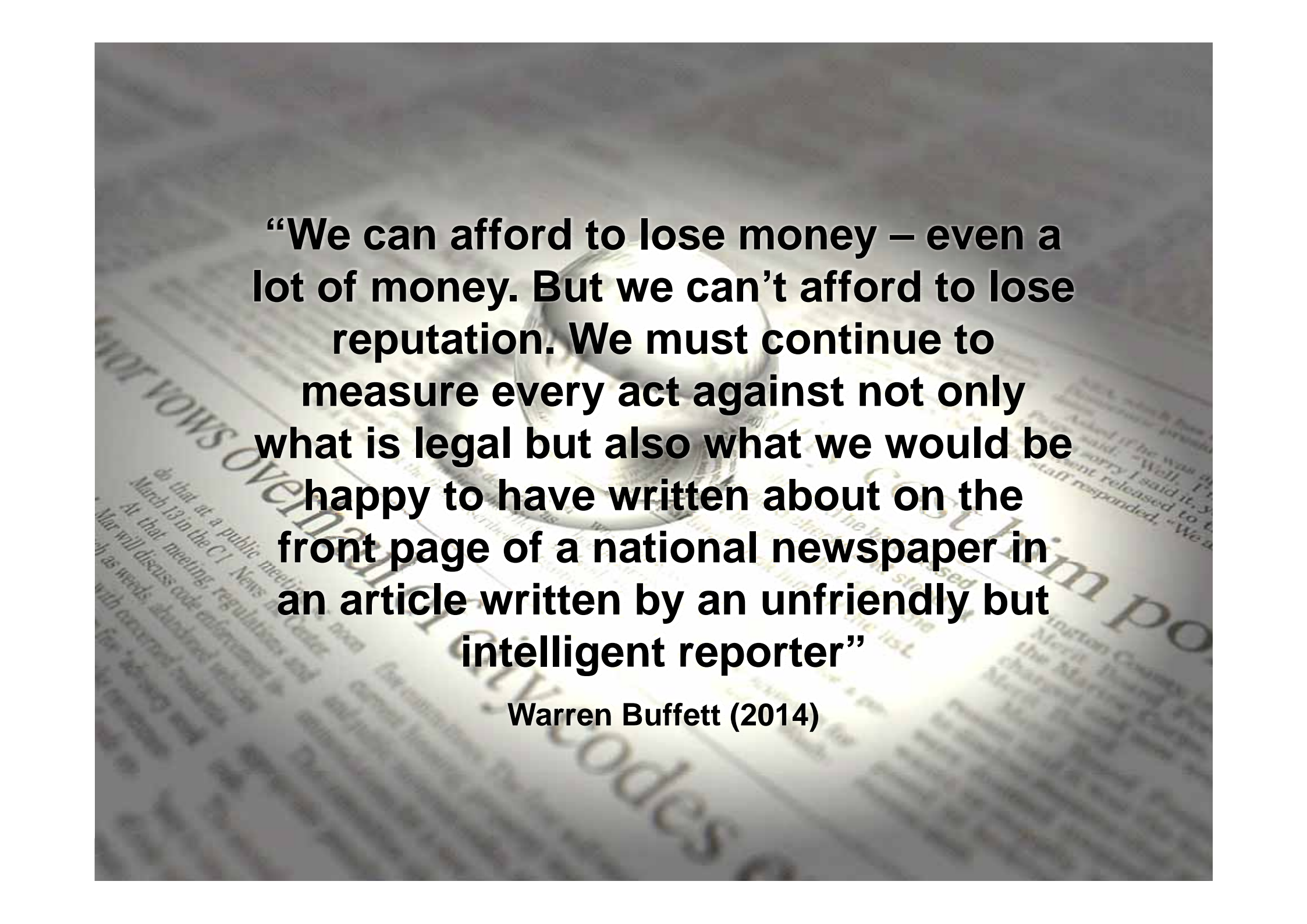


e.g. Eberl & Schwaiger (2008); Cao et al. (2014); Pfister (2015)

- Higher willingness to buy & hold stocks
- Higher stock returns



e.g. Schütz & Schwaiger (2007); Pfarrer et al. (2010); RaitheI & Schwaiger (2015)

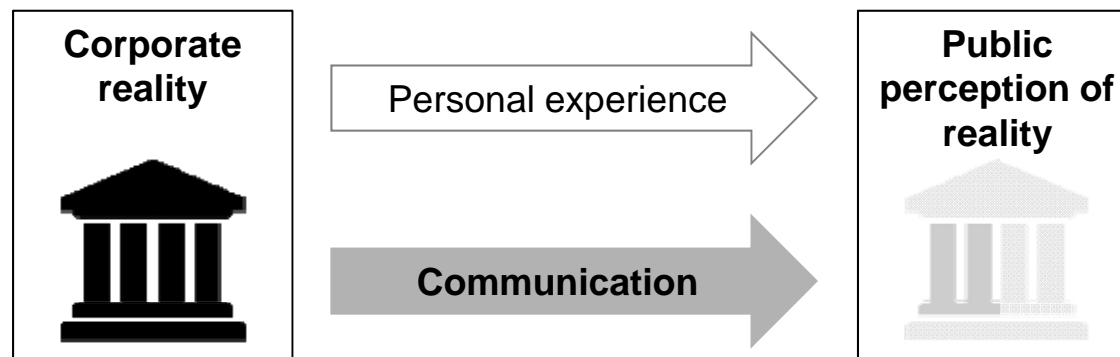


“We can afford to lose money – even a lot of money. But we can’t afford to lose reputation. We must continue to measure every act against not only what is legal but also what we would be happy to have written about on the front page of a national newspaper in an article written by an unfriendly but intelligent reporter”

Warren Buffett (2014)



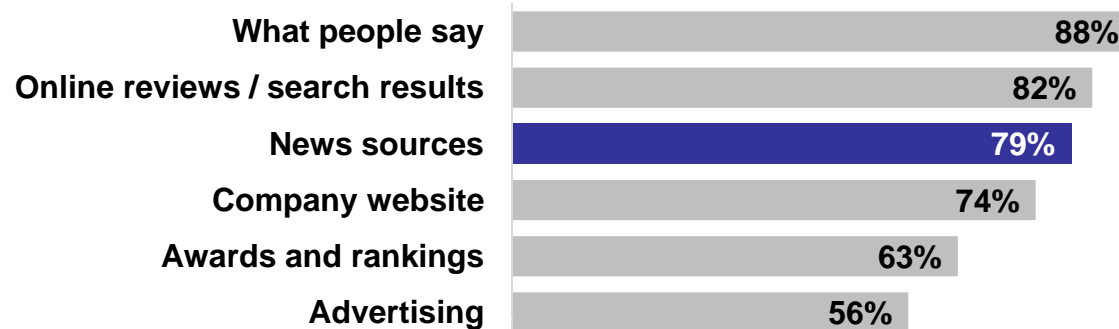
Why Focus on Media Releases?



What we know so far:

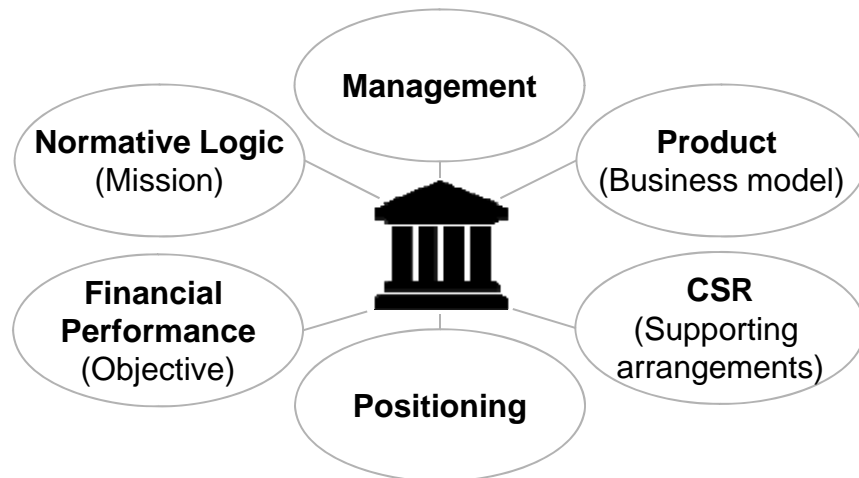
- Public perception is built through direct experiences with the firm and communication messages from paid (e.g. ads), owned (e.g. homepage) or earned media (e.g. WoM or articles in media outlets).
- Non-corporate sources are perceived as more credible than corporate sources.
- Firms contribute to the construction of their reputations by targeting important intermediaries (e.g. journalists).

What influences consumer perceptions about companies?¹



Source: Carroll & McCombs (2003); Pollock & Rindova (2003); Rindova et al. (2007); ¹Weber Shandwick (2012)

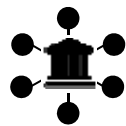
The Impact of Mass Media Topics, their Amount and Valence on Corporate Reputation (Level Model)



Adapted from Dowling & Moran (2012)

Theoretical Background

- First and second level agenda setting theory.
- The public tends to anthropomorphize companies resulting in a need to differentiate between corporate attributes.
- Information is encrypted in mind relative to its descriptive valence → differentiation between positive and negative news.

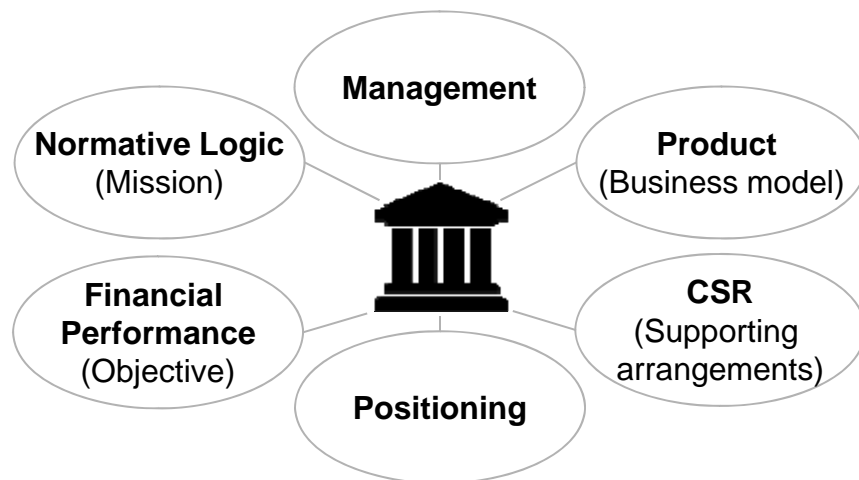


Study 1

To what extent is corporate reputation as well as its components competence and likeability determined by newspaper articles?

Source: Bhattacharya & Sen (2003); Brammer & Pavelin (2006); Davies et al. (2004); Foreman & Whetten (2002); McCombs & Shaw (1972); McCombs et al. (1995)

The Power of Mass Media to Change Corporate Reputation (Difference Model)



Adapted from Dowling & Moran (2012)

Add. Theoretical Background

- Cognitive dissonance (non-existence of media effects) vs. expectancy violation theory (existence of media effects).
- A firm's reputation is considerably driven by its industry category, i.e. people's involvement and perceived transactional risk.
- Intrapersonal filters, i.e. familiarity with the company, affect not only what information is selected but also how information is processed and attitudes are changed.



Study 2a

Do changes in mass media coverage change corporate reputation?
Do differences exist between industries?



Study 2b

What is the role of familiarity with the company in changing reputation?

Source: Burgoon & Jones (1976); Festinger (1957); Greenwood et al (2005); O'Guinn & Shrum (1997); Petty et al. (1983); Srinivasan & Till (2002)



Data

Research Units

- DAX30 Companies, 2005-2011 (Study 1, 2a; 382 firm-half-year observations) and 2008-2011 (Study 2b; 197 firm-half-year observations)

Reputation Data

- Survey data for reputation (Schwaiger 2004), consisting of likeability (3 items) and competence (3 items)
- 13 waves : Nov. 2005 - Nov. 2011, bi-annually
- Sample sizes ~2.000 respondents per wave, representative for general public in Germany
- **Industry comparisons:** Categorization of firms according to their industry classification (stereotypic high vs. low involvement industry; providers of mainly goods vs. services)
- **Familiarity:** Reputation survey question (since wave 6; high familiarity: respondent himself or peers have direct experiences with the firm; low familiarity: respondent knows the firm from media or only by name)

Media Data

- Provided by PRIME RESEARCH (Mainz)
- 17 relevant German print media (covering ~75% of all readers in Germany, see backup)
- Content analysis of all units of meaning per article mentioning the respective company
- Specially trained human coders, who understand context
- **Media favorability / criticality:** sum of positive (+) or negative (-) news coverage units of company l on attribute k in period t (aggregation of daily data between the reputation surveys per topic)



RQ1: Impact on Reputation, Competence and Likeability (Level)

	Reputation			Competence			Likeability		
Rep./Comp./Lik. _{t-1}		0.107*			0.028			0.117**	
		(0.060)			(0.081)			(0.047)	
Products ⁺ _t	-0.004	-0.019		-0.000	-0.018		-0.008	-0.015	
	(0.050)	(0.053)		(0.055)	(0.061)		(0.054)	(0.053)	
Fin. Performance ⁺ _t	0.029	0.043*		0.060**	0.057*		-0.005	0.022	
	(0.026)	(0.026)		(0.029)	(0.030)		(0.039)	(0.036)	
CSR ⁺ _t	0.025	0.042		0.032	0.059		0.014	0.022	
	(0.033)	(0.033)		(0.042)	(0.045)		(0.039)	(0.035)	
Norm. Logic ⁺ _t	-0.016	-0.011		-0.022	-0.028		-0.008	0.012	
	(0.029)	(0.035)		(0.037)	(0.044)		(0.035)	(0.037)	
Positioning ⁺ _t	0.132***	0.112***		0.076**	0.066*		0.169***	0.140***	
	(0.042)	(0.039)		(0.037)	(0.034)		(0.052)	(0.046)	
Management ⁺ _t	-0.034	-0.023		-0.025	-0.030		-0.037	-0.016	
	(0.049)	(0.049)		(0.032)	(0.033)		(0.066)	(0.063)	
Products ⁻ _t	0.007	-0.000		-0.009	-0.012		0.022	0.011	
	(0.033)	(0.032)		(0.038)	(0.040)		(0.036)	(0.030)	
Fin. Performance ⁻ _t	-0.116***	-0.090**		-0.122***	-0.114***		-0.094*	-0.060	
	(0.041)	(0.040)		(0.042)	(0.039)		(0.047)	(0.049)	
CSR ⁻ _t	-0.026	-0.042		-0.068	-0.093**		0.019	0.010	
	(0.046)	(0.043)		(0.044)	(0.041)		(0.050)	(0.048)	
Norm. Logic ⁻ _t	-0.057	-0.057		-0.009	0.003		-0.097**	-0.106***	
	(0.038)	(0.039)		(0.041)	(0.039)		(0.036)	(0.038)	
Positioning ⁻ _t	-0.057	-0.042		-0.009	-0.007		-0.097	-0.067	
	(0.058)	(0.054)		(0.057)	(0.055)		(0.064)	(0.061)	
Management ⁻ _t	0.017	-0.001		0.023	0.015		0.009	-0.015	
	(0.037)	(0.038)		(0.034)	(0.033)		(0.049)	(0.046)	
Constant (Firm dummies)	1.168***	0.000***	-0.009***	1.441***	-0.000**	0.013***	0.743***	-0.000***	-0.029***
	(0.108)	(0.000)	(0.002)	(0.104)	(0.000)	(0.002)	(0.136)	(0.000)	(0.002)
Observations	382	382	345	382	382	345	382	382	345
Adj. R²	0.849	0.870	0.872	0.859	0.875	0.877	0.759	0.780	0.788

Standardized coefficients and robust standard errors. Firm-fixed effects included in all models. *p < .10, **p < .05, ***p < .01

Results

- Sig. impact of positive news on positioning and negative news on financial performance across all models.
- Positive financial performance particularly impacts competence assessments.
- Negative news on firm's normative logic (strategy) impacts likeability.



RQ2: Reputation Changes (Diff. Model) by Industry

	$\Delta \text{Reputation}_{\text{all}}$		$\Delta \text{Reputation}_{\text{low inv.}}$		$\Delta \text{Reputation}_{\text{high inv.}}$		$\Delta \text{Reputation}_{\text{goods}}$		$\Delta \text{Reputation}_{\text{service}}$	
$\Delta \text{Products}_t^+$	0.032 (0.061)		0.017 (0.066)		0.097 (0.113)		0.003 (0.078)		0.092 (0.091)	
$\Delta \text{Fin. Performance}_t^+$	0.001 (0.091)		-0.035 (0.137)		0.095 (0.080)		0.067 (0.128)		-0.210 (0.138)	
ΔCSR_t^+	0.088 (0.082)		0.027 (0.088)		0.093 (0.133)		0.024 (0.110)		0.173* (0.100)	
$\Delta \text{Norm. Logic}_t^+$	0.076 (0.123)		0.097 (0.167)		0.021 (0.145)		0.073 (0.166)		0.148 (0.120)	
$\Delta \text{Positioning}_t^+$	-0.006 (0.076)		0.096 (0.097)		-0.132 (0.080)		0.039 (0.100)		-0.074 (0.129)	
$\Delta \text{Management}_t^+$	-0.029 (0.093)		0.020 (0.138)		-0.060 (0.130)		-0.079 (0.147)		0.013 (0.082)	
$\Delta \text{Products}_t^-$	-0.097* (0.051)		-0.097 (0.069)		-0.157* (0.093)		-0.103* (0.061)		-0.110** (0.053)	
$\Delta \text{Fin. Performance}_t^-$	0.020 (0.067)		0.055 (0.097)		-0.063 (0.118)		0.118 (0.082)		0.006 (0.105)	
ΔCSR_t^-	-0.064 (0.063)		-0.127 (0.084)		-0.003 (0.119)		-0.179** (0.085)		-0.013 (0.131)	
$\Delta \text{Norm. Logic}_t^-$	-0.117* (0.065)		-0.120 (0.104)		-0.157* (0.082)		-0.131* (0.073)		-0.111 (0.108)	
$\Delta \text{Positioning}_t^-$	0.059 (0.086)		0.046 (0.108)		0.173 (0.113)		0.070 (0.095)		-0.060 (0.135)	
$\Delta \text{Management}_t^-$	0.022 (0.071)		0.130 (0.093)		-0.088 (0.076)		0.117 (0.098)		0.034 (0.074)	
$\Delta \text{Constant}$	0.628*** (0.149)	0.551*** (0.170)	0.363* (0.206)	0.106 (0.201)	0.954*** (0.212)	0.948*** (0.274)	0.620*** (0.200)	0.424* (0.246)	0.640 (0.210)	0.634** (0.251)
Observations	345	345	201	201	144	144	199	199	146	146
Adj. R²	0.334	0.341	0.278	0.290	0.415	0.430	0.320	0.321	0.426	0.426

Standardized coefficients and robust standard errors. Time-fixed effects included in all models. *p < .10, **p < .05, ***p < .01

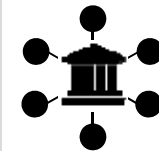
Results

- Mainly more negative news, especially about firms' products or strategy, reduce corporate reputation.
- Slightly more variance explained by media for high- vs. low-involvement firms.
- Manufacturers' reputation could suffer from negative reports on CSR, while positive news thereon increase reputation of service providers.

Discussion

Summary

- Limited impact of everyday media coverage on reputation (competence & likeability)
- Additional variance explained very low (using firm / time dummies)
- Positive impact of news on strong market position or competitiveness on reputation might be consequence of an endogeneity problem.
- Impact of positive and negative financial news.
 - Do not the “good ones” earn a reputation, but the successful ones?
- In the short run, negative news on products and strategy dampen reputation. While this may have been expected, the (small) magnitude of the effect is remarkable.

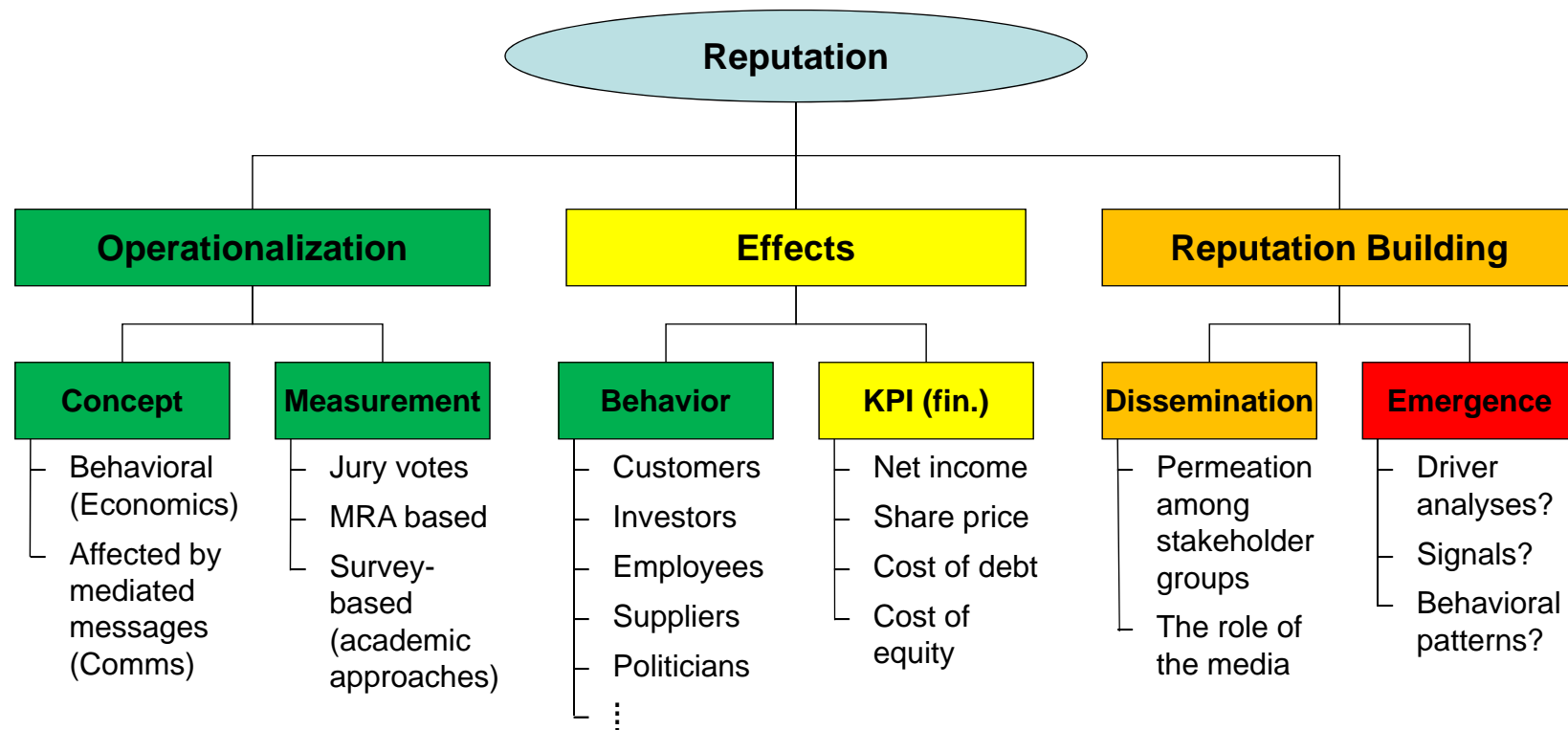


Speculations

- Reversed causality? (good reputation → good press)
- General public: Do they read the media at all?
- Do we measure a trait rather than a state when calculation the reputation score?

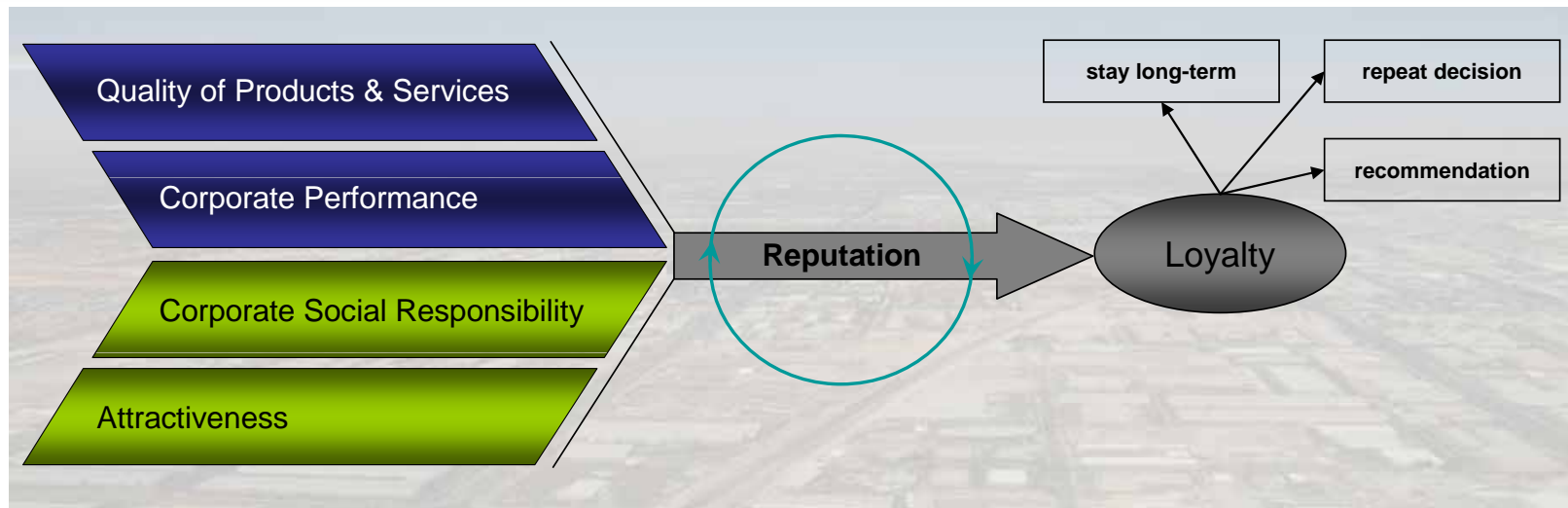


Corporate Reputation – A Research Map

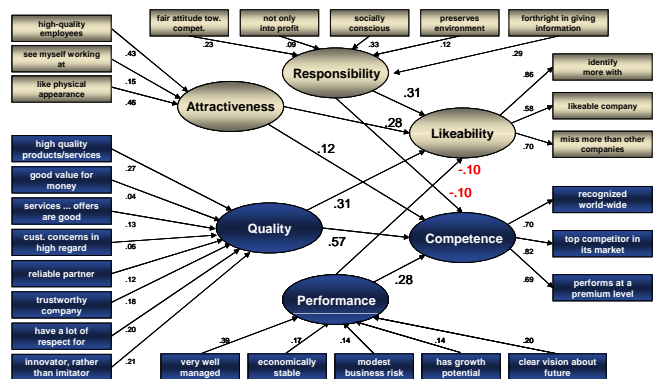




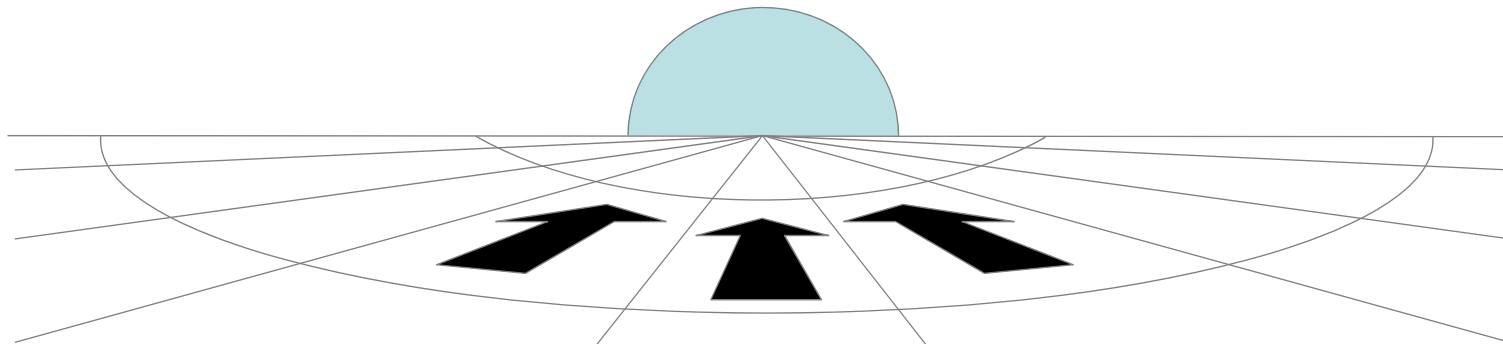
Driver Analysis (firm specific)



The impact of the drivers is calculated from the structural equation model by means of PLS



Rank (Impact on loyalty)	Position comp. to benchmark	Driver	Factor
1 (20.12%)	++	Rather innovator than imitator	Quality
2 (16.74%)	-	Well managed	Performance
3 (12.70%)	o	Customer centricity	Quality
4 (6.68%)	+	Sustainable agriculture	Attractiveness
5 (6.22%)	--	Addresses global challenges	CSR
6



Thank you for your attention!



Backup: Reputation Changes by Familiarity (since 2008)

	$\Delta \text{Reputation}_{\text{all}}$		$\Delta \text{Reputation}_{\text{low fam.}}$		$\Delta \text{Reputation}_{\text{high fam.}}$	
$\Delta \text{Products}_t^+$	0.188* (0.108)		0.171** (0.087)		0.065 (0.106)	
$\Delta \text{Fin. Performance}_t^+$	-0.061 (0.135)		0.009 (0.109)		0.050 (0.142)	
ΔCSR_t^+	0.213** (0.096)		-0.023 (0.083)		0.232** (0.103)	
$\Delta \text{Norm. Logic}_t^+$	-0.134 (0.158)		0.093 (0.197)		-0.145 (0.173)	
$\Delta \text{Positioning}_t^+$	-0.070 (0.110)		0.045 (0.118)		-0.139 (0.112)	
$\Delta \text{Management}_t^+$	0.026 (0.119)		0.004 (0.137)		0.078 (0.111)	
$\Delta \text{Products}_t^-$	-0.075 (0.078)		-0.023 (0.125)		-0.021 (0.061)	
$\Delta \text{Fin. Performance}_t^-$	-0.013 (0.093)		0.066 (0.107)		0.048 (0.123)	
ΔCSR_t^-	-0.150** (0.076)		0.160* (0.095)		-0.216*** (0.071)	
$\Delta \text{Norm. Logic}_t^-$	-0.110 (0.082)		-0.265*** (0.077)		-0.011 (0.102)	
$\Delta \text{Positioning}_t^-$	0.162 (0.139)		0.171 (0.138)		0.034 (0.150)	
$\Delta \text{Management}_t^-$	-0.011 (0.095)		-0.260*** (0.090)		0.016 (0.076)	
$\Delta \text{Constant}$	0.217 (0.167)	0.241 (0.193)	0.389** (0.168)	0.374 (0.242)	0.181 (0.181)	0.288 (0.188)
Observations	197	197	197	197	197	197
Adj. R²	0.188	0.202	0.185	0.256	0.050	0.051

Standardized coefficients and robust standard errors. Time-fixed effects included in all models. *p < .10, **p < .05, ***p < .01

Results

- CSR reports and product news seem to play a vital role.
- Audiences with low familiarity: Higher impact of news reports. Impact of negative news on management and strategy as well as good news on products. Positive impact of negative news on CSR.
- Audiences with high familiarity: CSR as the only relevant dimension.



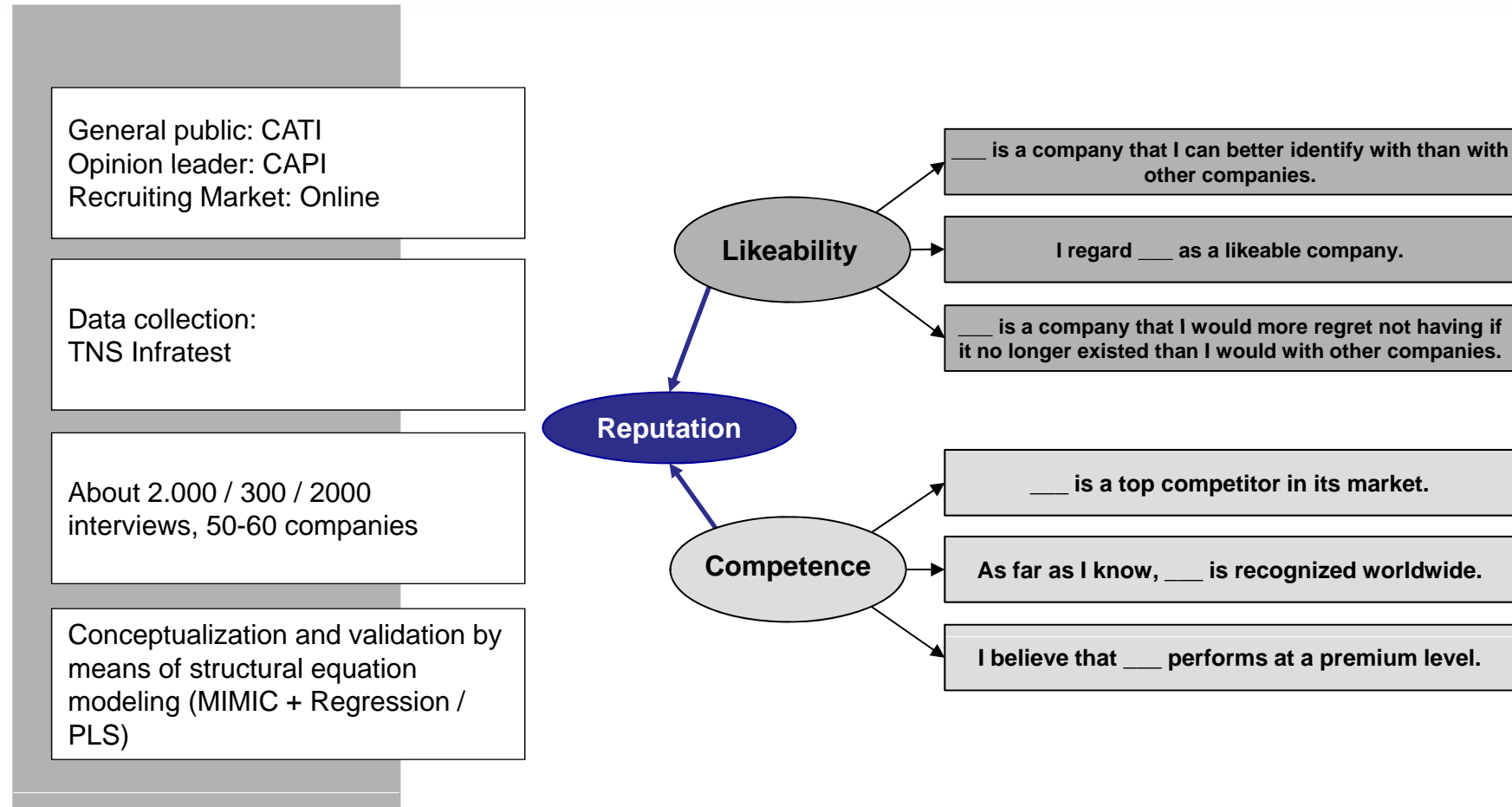
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Back up: Reputation Model





Back up: Media Sample

News outlet	Publication frequency	Readers 2011 2 nd term in million	Reach 2011 2 nd term*
Bild	Daily	12.13	17.2%
Bild am Sonntag	Weekly	10.57	15.0%
Stern	Weekly	7.85	11.2%
Der Spiegel	Weekly	6.53	9.3%
Focus	Weekly	5.17	7.4%
Die Zeit	Weekly	1.75	2.5%
Süddeutsche Zeitung (SZ)	Daily	1.41	2.0%
Wirtschaftswoche	Weekly	1.28	1.8%
Welt am Sonntag	Weekly	1.22	1.7%
Capital	Monthly	1.05	1.5%
Frankfurter Allgemeine Zeitung (FAZ)	Daily	0.96	1.4%
Frankfurter Allgemeine Sonntagszeitung (FAS)	Weekly	0.94	1.4%
Die Welt	Daily	0.84	1.2%
Manager Magazin	Monthly	0.62	0.9%
Handelsblatt	Daily	0.51	0.7%
Frankfurter Rundschau	Daily	0.37	0.5%
Financial Times Deutschland	Daily	0.35	0.5%

* An Index of 100 equals the German-speaking population > 14 years (69.24 m.)



Results Study 1b: Industry Comparison

	Reputation _{all}		Reputation _{low inv.}		Reputation _{high inv.}		Reputation _{goods}		Reputation _{service}	
Reputation _{t-1}	0.187*** (0.060)	0.107* (0.060)	0.167** (0.077)	0.063 (0.078)	0.211** (0.098)	0.122 (0.105)	0.514 (0.080)	-0.077 (0.066)	0.313 (0.080)	0.230** (0.091)
Products _t ⁺	-0.019 (0.053)		0.119** (0.052)		-0.084 (0.072)			-0.134 (0.107)		0.083 (0.051)
Fin. Performance _t ⁺	0.043* (0.026)		0.025 (0.036)		0.062 (0.042)		0.099** (0.045)			0.010 (0.041)
CSR _t ⁺	0.042 (0.033)		-0.035 (0.042)		0.099 (0.065)		0.076 (0.053)			0.013 (0.059)
Norm. Logic _t ⁺	-0.011 (0.035)		-0.080 (0.060)		0.004 (0.059)		-0.035 (0.067)			0.010 (0.072)
Positioning _t ⁺	0.112*** (0.039)		0.171** (0.067)		0.075 (0.063)		0.160** (0.075)			0.092 (0.074)
Management _t ⁺	-0.023 (0.049)		-0.041 (0.071)		-0.054 (0.073)		-0.022 (0.089)			-0.037 (0.062)
Products _t ⁻	-0.000 (0.032)		-0.023 (0.035)		0.012 (0.047)		-0.033 (0.050)			-0.046 (0.051)
Fin. Performance _t ⁻	-0.090** (0.040)		-0.017 (0.049)		-0.141*** (0.044)		-0.051 (0.075)			-0.088 (0.059)
CSR _t ⁻	-0.042 (0.043)		-0.039 (0.071)		-0.044 (0.041)		-0.191* (0.110)			0.070 (0.088)
Norm. Logic _t ⁻	-0.057 (0.039)		-0.082*** (0.026)		-0.048 (0.061)		-0.011 (0.042)			-0.113** (0.050)
Positioning _t ⁻	-0.042 (0.054)		-0.048 (0.052)		-0.037 (0.103)		0.008 (0.088)			-0.110 (0.125)
Management _t ⁻	-0.001 (0.038)		0.031 (0.049)		0.023 (0.079)		0.042 (0.105)			0.033 (0.061)
Constant	-0.010*** (0.000)	-0.009*** (0.002)	-0.007*** (0.000)	-0.004* (0.002)	-0.015*** (0.000)	-0.012** (0.004)	0.024*** (0.000)	0.013*** (0.003)	-0.043*** (0.000)	-0.028*** (0.005)
Observations	382	345	201	201	144	144	199	199	146	146
R²	0.872	0.890	0.829	0.854	0.895	0.914	0.815	0.848	0.842	0.870
Adj. R²	0.857	0.872	0.808	0.826	0.883	0.894	0.792	0.816	0.825	0.842

Standardized coefficients and robust standard errors. Firm-fixed effects included in all models. *p < .10, **p < .05, ***p < .01

Results

- Slightly more variance explained by media for low-involvement vs. high-involvement firms and for manufacturers vs. service providers.
- Low-involvement firms may foster reputation through positive news on their products, while overall effect of negative financial performance news stems from high involvement companies exclusively.
- Providers of services suffer mainly from bad news concerning their long-term goals.