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ARTICLE TITLE: The Reputation Quotient<sup>SM</sup>: A multi-stakeholder measure of corporate reputation

ARTICLE AUTHOR: Fombrun, Charles

VOLUME: 7

ISSUE: 4

MONTH:

YEAR: 2000

PAGES: 241-255

ISSN: 1350-231X

OCLC #:

Processed by RapidX: 2/15/2018 11:52:46 AM



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# The Reputation Quotient<sup>SM</sup>: A multi-stakeholder measure of corporate reputation

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Received: 13th November, 1999

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## ABSTRACT

Measures of corporate reputation currently in widespread use suffer from fundamental methodological and conceptual weaknesses. This paper begins with a brief overview of the reputation construct and its expected dimensionality. It then ex-

amines some of the major indices in use and documents their principal weaknesses. A new instrument is proposed — 'the reputation quotient<sup>SM</sup> (RQ)' — to measure corporate reputations and establish its empirical validity and reliability through focus groups and pilot studies. It concludes that the reputation quotient is a robust measure of corporate reputations that considerably improves the state of the art in reputation measurement.

## INTRODUCTION

Converging trends are making stakeholder perceptions more critical to companies. They invite managers to take a more active, centralised, focused and scientific approach to communicating with those stakeholders — an approach that is rapidly gaining currency under the label of 'reputation management' in companies around the world.

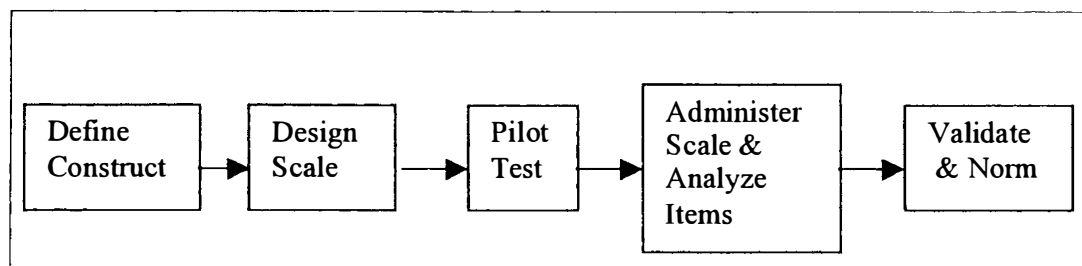
As managerial interest in valuing and managing corporate reputations has grown, so too have academics begun incorporating corporate reputations into their conceptual models. To economists, reputations are traits that signal a company's likely behaviours. To strategists, a company's reputation is a barrier to rivals, a source of competitive advantage. To accountants, reputations are an intangible asset, a form of goodwill whose value fluctuates in the marketplace. To marketers, reputations are perceptual assets with the power to attract loyal customers. To students of organisation, reputations are an outgrowth of a company's identity, a crystallisation of what



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The Journal of Brand Management, Vol. 7 No. 4, 2000, pp. 241–255.  
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Figure 1 Scale Development



the company does, how it does it, and how it communicates with its stakeholders.

Both academic and practitioner interest in corporate reputations can be traced to the widespread visibility given to the topic by the periodic publication of corporate ratings. *Fortune's* 'America's Most Admired Companies' is probably the most visible of these and has spawned a small industry of followers in publications such as the *Financial Times*, *Asian Business*, and the *Far Eastern Economic Review*. Social ratings agencies like the Council on Economic Priorities and investment funds like Kinder, Lydenberg, & Domini (KLD) also rate companies on various aspects of social performance and contribute to the current proliferation of reputational ratings.

Academics conducting research on corporate reputations have largely relied on these practitioner ratings in their modelling efforts, particularly the *Fortune* and KLD ratings. Although they routinely acknowledge many limitations to the data, most also recognise the difficulty inherent in developing a valid database of corporate reputational ratings. Unfortunately, the result has been a patchwork quilt of results whose inconsistent findings are invariably blamed on methodological shortcomings attributable to measurement issues.

To address these limitations directly, it was necessary to establish a new, more robust measure of corporate reputation that would be both valid and reliable. This paper reports

the results of the two-year effort to develop the Reputation Quotient<sup>SM</sup>.

## MEASURING CORPORATE REPUTATION

Spector (1992)<sup>1</sup> suggests a five-step process for scale development that begins with construct development, scale design, pilot testing, and validation (see Figure 1). This model reflects the integral relationship shared by theory development, instrument design, and construct validation. These are examined in turn.

## CONSTRUCT DEFINITION

Various fields, including economics, strategy, marketing, organisation theory, sociology, communications and accounting are contributing to the burgeoning literature on corporate reputations.<sup>2</sup> Table 1 summarises the way the construct has been used in these disciplines. Jointly, they suggest that a corporate reputation is a collective construct that describes the aggregate perceptions of multiple stakeholders about a company's performance. Since corporate performance is a multi-dimensional construct, reputation would be expected to be multi-dimensional as well, reflecting the unique dimensions on which individual stakeholders base their judgments of the company's performance.

Based on similarities across fields, an integrative definition of corporate reputation is

**TABLE 1 DEFINITIONS OF CORPORATE REPUTATION**

<b>Discipline</b>	<b>Definition</b>
Economics	Reputations are traits or signals that describe a company's probable behaviour in a particular situation.
Strategy	Reputations are intangible assets that are difficult for rivals to imitate, acquire, or substitute, and so create mobility barriers that provide their owners with a sustained competitive advantage.
Accounting	Reputation is one of many types of intangible assets that are difficult to measure but create value for companies.
Marketing	Reputation describes the corporate associations that individuals establish with the company name.
Communications	Reputations are corporate traits that develop from relationships companies establish with their multiple constituents.
Organisation theory	Reputations are cognitive representations of companies that develop as stakeholders make sense of corporate activities.
Sociology	Reputational rankings are social constructions emanating from the relationships firms establish with stakeholders in their shared institutional environment.

proposed as a collective representation of a firm's past behaviour and outcomes that depicts the firm's ability to render valued results to multiple stakeholders.<sup>3</sup> A corporate reputation, it is suggested, calibrates a firm's relative standing internally with employees and externally with its other stakeholders, in its competitive and institutional environments. A reputation is therefore a collective assessment of a company's ability to provide valued outcomes to a representative group of stakeholders.

## SCALE DESIGN

Although the study of corporate reputations has roots in several academic disciplines, the business media now dominate efforts to operationalise the construct. Consequently, serious empirical research has relied heavily on these practitioner measures.<sup>4,5,6</sup> This section begins with

summarising the most visible corporate reputational surveys in use. It is then shown that these surveys do not adequately measure the reputation construct.

## Existing reputation surveys

Eight survey instruments are most commonly used to measure corporate reputations:

- (1) **Fortune AMAC** In 1984, *Fortune* released its first America's Most Admired Companies (AMAC) rankings based on data collected during the autumn of 1983. AMAC provides the longest continuing measure of corporate reputation and is the data backbone for most empirical academic work on reputation. *Fortune* has expanded from 3,000 to 16,000 its mailing of surveys to corporate executives, directors and securities analysts. Until 1995, the sampling frame consisted of the *For-*

*Fortune* 500, the largest US manufacturers in terms of revenue. In 1995 recognising the growing influence of the *Fortune* Service 500 and the transition of some companies like GE from manufacturing to services, *Fortune* changed the sampling frame to the *Fortune* 1000 — a ranking of US service and manufacturing firms by revenues.<sup>7</sup> Participants are asked to assess all firms in their industry on eight criteria: quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop and keep talented people; responsibility to the community and the environment; and wise use of corporate assets. Individual responses are aggregated into overall ratings for each firm in the industry.

- (2) **Manager Magazin (MM)** MM has conducted its survey of the largest 100 German manufacturing and service firms since 1987. MM asks approximately 2,000 managers drawn from two levels of corporate hierarchy to rate the overall reputation of each of the largest firms. In addition, the managers rank the companies on five attributes: management quality; innovativeness; communication ability; environmental orientation and financial stability.
- (3) **Management Today (MT)** In 1991, MT unveiled Britain's Most Admired Companies (BMAC). MT surveys board of directors across more than 250 of Britain's top companies and expert analysts at ten leading investment banks. Participants are asked to measure Britain's ten largest public companies in 26 sectors on 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 to innovate; quality of marketing; community and environmental responsibility; and use of corporate assets.
- (4) **Asian Business (AB)** In 1992, AB introduced Asia's Most Admired Companies. AB mails surveys to 8,600 senior executives, CEOs and corporate board members selected randomly from its subscribers. Participants are asked to measure the largest, in terms of turnover, 50 companies from their own country and high profile MNCs in the region. Company lists are divided into smaller lists of 30 to be surveyed in nine Asian countries: Hong Kong, Indonesia, Japan, Malaysia, the Republic of the Philippines, Singapore, South Korea, Taiwan and Thailand. Nine criteria include overall admiration; quality of management; quality of products and services; contribution to the local economy; being a good employer; potential for future profit; and ability to cope with changing economic environment. In addition, respondents rank the nine attributes in order of their importance.
- (5) **Far Eastern Economic Review (FEER)** In 1993, FEER first published Asia's Leading Companies (ALC). FEER surveys 6,000 business executives randomly chosen from its subscribers in 11 Asian countries and those of five leading Asian business magazines published in local languages. The survey has a 60 per cent response rate. Five different versions of the survey are sent such that the ten largest Asian-based companies are ranked only in their home markets. Participants across all 11 countries, therefore, rank the top 90 non-Asian multinationals. Criteria include overall awareness of the company; overall leadership; high quality products and services; innovativeness to responding to customers; long-term financial soundness, and companies that others try to emulate. Countries include Australia, Hong Kong, India, Indonesia, Japan, Singapore, Malaysia, the Republic of the

Philippines, Singapore, Taiwan and Thailand.

- (6) **Financial Times (FT)** Begun in 1994 as a survey of Europe's Most Respected Companies, in 1999 the FT changed its focus to the World's Most Respected Companies (WMRC). Today, the FT samples 3,500 CEOs from publicly traded, state-owned enterprises, subsidiaries and private companies representing 53 countries. Participants nominate the company that they most respect in the world, the company they most respect in their industry sector, the company they most respect in their region, and the most respected business leader. Eight criteria include strong and well-thought out strategy; maximising customer satisfaction and loyalty; business leadership; quality of products and services; strong and consistent profit performance; robust and human corporate culture; successful change management and globalisation of business. Participants then rank the attributes that would make companies most respected in the future. Responses are weighted by the GDP of the responding CEO's home country.
- (7) **Industry Week (IW)** First conducted in 1997, IW's 100 Best Managed Companies uses a multi-stage nomination and voting process that includes 85 international experts and its own editors. The sampling frame is IW's 1,000 list — the world's largest 1,000 manufacturers based on turnover. Previous year's winners are automatically considered finalists. One hundred additional finalists are chosen using four years of financial data and a proprietary formula. The group of 85 international experts nominate additional finalists and then vote on the list. Finalists are questioned about best practices in four areas: people, society, markets and change. IW editors choose the 100 winning companies.

- (8) **Fortune GMAC** In 1997, *Fortune* unveiled their survey of the Global Most Admired Companies (GMAC). Senior executives and outside directors in each industry and financial analysts are asked questions similar to those used in the AMAC survey. *Fortune* begins by selecting the world's largest companies in terms of revenue from 21 industries and eliminating those dominated by one country or with fewer than four companies. Participants choose the global company that they admire overall and rank companies in their industry. Respondents then rate companies in their own industry on eight criteria: quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop and keep talented people; responsibility to the community and the environment; and wise use of corporate assets. In addition, they measure companies' effectiveness in doing business globally.

Across these eight surveys, similarities far outweigh differences among them in terms of sampling frames, respondents, administration, and items.

**Sampling Frame** A review of the eight sampling frames reveals three sources of bias: size, public status, and sector membership. Most surveys restrict the sample to larger firms, limiting consideration of emerging companies and industries. Most also restrict the sample to publicly traded firms and so avoid inclusion of private and family businesses. Finally, surveys often have respondents rank only those firms in their own industries — inducing collusion, as *Fortune* itself has noted.

**Respondents** The surveys rely on the perceptions of a limited respondent pool that over-represents senior managers,

**TABLE 2 ITEMS FROM EXISTING REPUTATION SURVEYS**

Items	Count
Ability to attract, develop & retain top talent	5
Ability to cope with changing economic environment	3
Being honest & ethical	1
Best practices – markets	1
Business leadership	1
Companies that other try to emulate	1
Contribution to local economy	1
Financial soundness	6
Globalisation of business	1
Innovativeness	4
Innovativeness in responding to customers	1
Long-term investment value/Potential for future profit	4
Long-term financial vision	1
Maximising customer satisfaction & loyalty	1
Overall admiration	1
Overall awareness of company	1
Overall leadership	1
Potential for growth	1
Quality of management	5
Quality of marketing	1
Quality of products & services	7
Ranked attributes in order of importance	1
Robust & human corporate culture.	1
Social responsibility (society, environment, community)	5
Strong & consistent profit performance	2
Strong & well thought out strategy	1
Use of corporate assets	3

directors, and financial analysts and does not incorporate the views of other key stakeholders that shape corporate reputations. In addition scale items often elicit a single stakeholder group's perceptions (typically managerial) of key issues relevant to other stakeholders. For example, *Asian Business* asks senior executives

and board members if companies are good employers.

**Administration** Most of these reputational surveys are pen and paper instruments sent out through the mail; some involve personal interviews. Six scales use a single step process in which revenue ranking determines the sampling

**TABLE 3 INSTRUMENT PROTOTYPE #1****Familiarity**

I am very familiar with the products and services of the company.  
*I haven't seen or heard anything about this company lately.*  
 I know a lot about this company's financial performance.  
 I know many people who work for this company.

**Operational Capability**

This company is well-managed.  
 The company has highly skilled employees.  
*This company is inefficient and non-productive.*  
 This company is led by an intelligent and competent CEO.

**Strategic Positioning**

This company sells high quality products and services.  
 This is an innovative company.  
*The products and services of this company are unfairly priced.*  
 This company provides excellent value to the consumer.

**Industry Leadership**

This company has extensive resources to draw on.  
 This company is very powerful.  
 This company is a leader in the (name of industry) industry.  
*This company seems very weak to me.*

**Distinctiveness**

*This company doesn't really have anything unique to offer.*  
 This company is very distinctive in the way it does things.  
 I really identify with this company.  
 I have a good feeling about this company.

**Credibility**

I usually believes what this company says.  
*From what I know, this company never lives up to its promises.*  
 This is a company I can trust.  
 This company is honest and straightforward in its communications with the public.

**Influential**

The products and services this company sells are important to society.  
 This company really makes a difference to people like me.  
*This company contributes very little to the economy.*  
 This company helps make the world a better place.

**Caring**

This is a company that really cares about its employees.  
 This company contributes a lot the communities in which it operates.  
 This is an environmentally responsible company.  
*This company cares very little about the safety of its customers and employees.*

*Reverse coded items are in italics*



frame. Two use a multiple step process inviting nominations before ratings and rankings.

**Items** The surveys demonstrate surprisingly low variation among items, despite their use in cross-national settings. The eight surveys rely on a total of 27 unique items listed in Table 2. *Manager Magazin's* survey includes the fewest number of items — five. *Asian Business's* survey contains the most items — ten. Financial items appear most often in the surveys, followed by management items. The financial category also includes the most components — past performance, profitability, long-term investment value and financial vision — and is clearly the best developed area. The prevalence of these items confirms the investor-bias of existing reputational surveys. Social and employee items appear least often, and honesty and ethics appears only once. Item wording reflects the tendency for respondents to be corporate executives or analysts rather than the stakeholder groups best informed about the item in question.

This review suggests that current operationalisations of corporate reputation suffer from two key biases:

- They lack content validity by focusing on the perceptions of a limited respondent pool of corporate leaders and financial analysts; and
- Survey items do not capture the perceptions of multiple stakeholder groups that are necessary for a valid measure of corporate reputation.

### **Constructing a balanced instrument: the Reputation Quotient<sup>SM</sup>**

To develop a balanced instrument for measuring corporate reputations, the list of 27 items from previous surveys were used; with added

items suggested by academic and practitioner literature on reputation;<sup>8</sup> and additional items from proprietary image research conducted by the commercial market research firm of Harris Interactive (our measurement partner). After eliminating redundancies, the resulting list was reduced to a total of 32 items grouped into eight categories — with four items in each category: familiarity, operational capability, strategic positioning, industry leadership, distinctiveness, credibility, influential and caring.

It was assumed that 'familiarity' was essential since, without awareness, reputation could not exist. 'Operational capability' refers to perceptions of the company's management depth and skill. 'Strategic positioning' describes perceptions of the company's competitive stance towards along quality, price, and innovation. 'Industry leadership' captures perceptions of a company's competitive position in its industry. 'Distinctiveness' refers to its degree of differentiation and ability to capture rents. 'Credibility' describes the degree of trust the company inspires in people. 'Influential' captures firms' contribution to society in terms of economic development and impact on lives. 'Caring' refers to the perceptions of the company's social responsibility. The initial prototype for the instrument is presented in Table 3.

### **TESTING AND REFINING THE REPUTATION INSTRUMENT**

To examine the empirical properties of the initial instrument, a pilot test in the airline industry was conducted; organised a number of focus groups to assess construct validity; and then conducted two additional pilot tests in the personal computer industry and on a national group of visible companies. These tests enabled successive refinements of the instrument into its final form.

**Step #1: Pilot test in the airline industry** The first pilot test was conducted in July 1998 and focused on the airline industry.

The test was conducted online by the internet market research firm of Harris Interactive, and drew respondents from the Harris Poll Online — a proprietary database of five million online co-operative respondents. Respondents were invited to participate in the study by a personal E-mail from which they signed on to a password-protected website where they rated a single company on the 32-item prototype instrument. Respondents answered various other questions to assist in the evaluation of the 32-item scale. They also answered open-ended questions about the industry and about the instrument.

Through this process, respondent ratings of 24 airlines that service the USA were obtained. Carriers included both foreign and domestic as well as privately held, publicly traded and national airlines. The prototype instrument was tested on a set of ten specific airlines.

A total of 663 respondents responded to the invitation, 251 of which were classified as general investors (traded corporate shares in the past year), 11 of which had been airline employees in the past three years, and all of which had been airline customers in the past three years. Respondents were randomly assigned to one of ten airlines with which they were at least somewhat familiar and provided responses only about that airline.

The response patterns were examined to assess question wording and confusion. In particular, items with fewer than 425 respondents and more than 20 per cent 'not sure' were examined in greater detail. Seven items had 'not sure' rating greater than or equal to 20 per cent. The responses to the open-ended questions were then reviewed for insight into why respondents chose 'not sure'. From these responses, it was determined that two of those items should be retained. These items questioned the value/pricing and trustworthiness of the airlines.

Factor analyses were run and Cronbach's coefficient alpha scores calculated to con-

firm the theoretical multi-dimensionality of the corporate reputation construct. Since the dimensions were theoretically derived, it was not expected that the factors would load strongly on the dimensions. The factor analysis suggested 12 underlying factors with eigenvalues greater than 1. The initial findings seemed to discount the eight theoretical dimensions. However, further examination revealed that items loaded on multiple factors suggesting that the items themselves were unclear and perhaps double barrelled. Results suggested that items required simplification and clarification to reduce overlap. In addition, inclusion of reverse coded items often results in additional factors.

To examine the internal consistency of the overall reputation scale, coefficient alpha was calculated. At .69, it fell just short of the .70 guideline.<sup>9</sup> Then identified individual items that reduced the consistency of the scale. When certain items were removed the overall scale's alpha exceeded .70. On examining the eight subscales, none of them were found to meet the threshold value of .70.

In sum, responses to the first prototype instrument and analyses of the airline pilot test were disappointing. It was, therefore, decided to revise the instrument. Rather than act on the list of problematic items immediately, various focus groups were organised to explore dimensions and items in greater detail.

**Step #2: Focus groups** Following the first pilot test, a number of focus groups were run with assistance from Shandwick International, the global public relations agency. Specifically, we set out to examine:

- how people think about companies;
- the degree to which they feel that reputation matters;
- the language they use to address issues of reputation;
- the specific wording that selected target

groups find most compelling when discussing corporate reputations. The focus groups facilitated validation of the relevance of the construct, categories and attributes and determined necessary refinements.

A total of five focus groups were conducted among respondents who met the criteria set out here.

The first two groups consisted of corporate executives interested in reputation management: males and females; VP title or higher; minimum of 500 employees in company; having 'significant' or 'considerable' input in the selection of corporate PR firm.

Three further consumer groups were created:

a) a group of airline flyers: males and females aged 25–64; those who travelled by commercial airline for business or pleasure at least three times in the last year; half cabin flyers; half business or first class flyers.

b) a group of personal computer buyers: males and females; half aged 25–34; half aged 35–44; who bought computer hardware such as PC laptop, peripheral in past three years; 1/2 business use; 1/2 personal use.

c) a group of graduate business students: male and female; MBA candidates.

The same procedure was used across groups: After a brief warm-up and introduction, respondents participated in semi-structured 90-minute discussion about key issues surrounding reputation, during which they were probed in-depth about the reputational attributes measured in the first pilot study.

Respondents identified a broad array of criteria in evaluating reputation. In general, these criteria supported existing items in the survey. Although priorities varied somewhat by competitive environment and industry, a

number of universal factors or themes relating to the following categories were mentioned:

- familiarity (knowing the companies or its products well);
- creating value (producing high quality products, providing value for money);
- operational capability (being well-run, efficient and productive);
- corporate citizenship (caring about its employees/the community);
- performance (proven track record, good use of assets);
- leadership/management (having a CEO with vision, communicating values);
- appeal (being like by stakeholders, being a good company to work for);
- credibility (being trustworthy, standing behind practice).

Respondents generally ranked performance, operational capability, leadership and familiarity among the most important factors in building reputation. Consumers and business people alike tended to believe that if a company is known, well run, profitable and uses its assets wisely, many of the other dimensions, such as appeal, believability, and value will follow. In other words, the latter dimensions appear to be second order dimensions. The participants did not discount, however, the importance of factors such as corporate citizenship, and understood the importance of maintaining good relationships with the community at large and with the workforce.

Of the prototype instrument's key dimensions, the concept of 'significance' did not resonate well with many respondents. They felt that while some well-managed companies were making a difference in the world, not all companies, regardless of how much attention they paid to their reputation, could make a mark on society or be leaders in their industry. Consequently, the idea of 'significance' appeared to be too high a hurdle in evaluating a company's ability to

**TABLE 4 PROTOTYPE INSTRUMENT #2****Appeal**

I like this company's products and services.  
 This looks like a good company to work for.  
 I have a good feeling about this company.\*

**Corporate Citizenship**

This company cares a lot about its employees.\*\*  
 This company contributes a lot the communities in which it operates.\*  
 This is an environmentally responsible company.\*  
 This company behaves ethically and responsibly.

**Credibility**

I usually believe what this company says.\*  
 This company stands behind this products and services.  
 This is a company I can trust.\*

**Distinctiveness**

This company offers unique products and services.\*\*  
 This company is distinctive in the way it does business.\*\*  
 This company is very different from its competitors.

**Impact**

This company sells products and services that are important to our lives.  
 This company has really made an impact on its industry.

**Leadership**

This is an innovative company.\*  
 This company is a leader in the industry.\*  
 This company is lead by a CEO with vision.\*\*  
 This company communicates its values clearly.

**Operational capability**

This is a well-run company.\*\*  
 This company has good employees.\*\*  
 This company is efficient and productive.\*\*  
 This company is effective at doing business globally.

**Performance**

This company can be counted on to perform well financially.  
 This company has a proven track record.  
 This company has good long-term prospects.  
 This company makes good use of its corporate assets.

**Value creation/Quality**

This company offers high quality products and services.\*\*  
 This company provides excellent value to its customers.\*\*  
 This company's products and services are very reliable.

\* Same as 1st pilot    \*\* Adapted from 1st pilot

manage its reputation. Respondents did recognise, however, that well-managed companies were capable of making some sort of *impact* on both their customers' lives and on the industry in which they compete.

### **Step #3: Pilot test in the PC hardware industry**

Based on results of the first pilot and the focus groups a revised questionnaire was prepared. The second prototype instrument is presented in Table 4. Items from Pilot #1 are identified with a single asterisk; reworded items from Pilot #1 are identified with a double asterisk. Pilot #2 contains 15 original or reworded questions from the first pilot. In general, the dimensions reflect comments from the focus group discussions.

Familiarity was removed from the reputation scale and treated as a modifier rather than a core dimension. 'Impact' replaced significance to identify industries or firms that have broad societal effects. 'Distinctiveness' was retained to identify companies that differentiated themselves successfully from their competitors.

A 'performance' dimension was also added which had previously been thought would be captured in other ways. The factor analysis from the first pilot test had demonstrated an indirect emphasis on financials; and financial performance appeared important to most participants in the focus groups. Therefore, items were added that would tap into different aspects of the company's financial performance.

The focus groups had also suggested the addition 'appeal' as a core dimension to capture the emotional attraction respondents have towards companies. Finally, 'caring' was changed to corporate citizenship — a construct from the strategy literature.

The second pilot again drew respondents from Harris Interactive's HPOL database and was conducted during November and December 1998. A total of 2,516 participants responded to the instrument and rated 25 manufacturers of personal computers.

The second version of the prototype instrument was tested on ten of these PC hardware makers.

As with the first pilot, the patterns of 'not sure' and 'declined to respond' were examined. A total of 11 items had a 'not sure' rate exceeding 20 per cent. These items referred to employees, corporate citizenship, and several performance items that appeared less salient to the general public. The percentage of 'declines' dropped to less than 1 per cent of all questions.

The factor analysis provided excellent results. A varimax factor analysis of the 30 items extracted two factors. The first factor consisted of 29 items with an eigenvalue of 15. Four items loaded on the second factor with an eigenvalue of 2. However, three items loaded significantly on both factors. This supports the existence of an underlying construct of reputation. The Cronbach's alpha was calculated for the overall reputation scale. At .96, it far exceeded the threshold, confirming the results of the factor analysis. Then the internal reliability of each of the nine subscales was examined. Only 'impact' failed to exceed the threshold of .70.

The psychometric analyses of the second pilot were therefore positive. Factor loading and coefficient alpha were above threshold levels. To further improve the instrument, all items were examined for their contribution to explained variance in overall reputation. Highly correlated items that added no additional value and thereby reduced the time required to score each company were eliminated. Based on these results the number of subscales was reduced to eight and the number of items to 20.

### **VALIDATION AND NORMING**

Validity refers to the degree to which a scale or classification measure measures what it is supposed to measure.<sup>10</sup> Although the validity of a measure can never be

**TABLE 5 THE REPUTATION QUOTIENT<sup>SM</sup>****Emotional Appeal**

I have a good feeling about the company.\*\*  
 I admire and respect the company.  
 I trust this company.\*\*\*

**Products and Services**

Stands behind its products and services.\*\*  
 Develops innovative products and services.  
 Offers high quality products and services.\*\*  
 Offers products and services that are a good value for the money.\*\*\*

**Vision and Leadership**

Has excellent leadership.\*\*\*  
 Has a clear vision for its future.\*\*\*  
 Recognises and takes advantage of market opportunities.

**Workplace Environment**

Is well-managed.\*\*\*  
 Looks like a good company to work for.\*\*  
 Looks like a company that would have good employees.\*\*\*

**Social and Environmental Responsibility**

Supports good causes.\*\*  
 Is an environmentally responsible company.\*\*  
 Maintains high standards in the way it treats people.\*\*\*

**Financial Performance**

Has a strong record of profitability.\*\*\*  
 Looks like a low risk investment.  
 Tends to outperform its competitors.  
 Looks like a company with strong prospects for future growth.\*\*\*.

\* Same as first pilot \*\* Same as second pilot \*\*\* Reworded from second pilot

established universally, repeated research builds the case for the generalisability and usefulness of the measure.

To validate the final version of the Reputation Quotient<sup>SM</sup>, a third pilot test of the instrument was conducted in which 8,454 respondents were asked to rate a group of 20 well-known companies. To reduce response bias due to acquiescence one item per subscale was reverse coded.<sup>11</sup>

As with the first two pilots, the patterns

of 'not sure' and 'declined to respond' were examined. For no items did the 'not sure' rate exceed 20 per cent. However, an analysis of the five reverse coded items revealed that these questions confused respondents. Comparing the response patterns of the reverse coded items to the other items in each subscale suggested that 5 to 30 per cent of respondents failed to realise that the items were reversed.

A varimax factor rotation of the complete

sample extracted nine factors. It is not unusual for scales containing reverse coded items to result in additional factors. For example, two of the reverse coded items loaded on unique factors. The Cronbach's alpha was calculated for the overall reputation scale. At .75, it exceeded the threshold, confirming the results of the factor analysis. No examination of the internal reliability of each of the nine subscales was made since several consisted of only reverse coded items.

Due to confusion of reverse-coded items, respondents whose response patterns were inconsistent were deleted and factor analyses and Cronbach's alpha were run on the remaining 2,739 respondents. A varimax rotation extracted seven factors. Five of the seven factors aligned with the theorised subscales. Two factors combined items from different subscales signalling a need to further refine a few items. Cronbach's alpha for the entire model exceeded .84

In sum, the psychometric analyses of the third pilot were therefore positive after correcting for respondent confusion over reverse coded items. Factor loadings and coefficient alpha were above threshold levels. To further improve the instrument, the reverse coded items were transformed and five items revised. Table 5 presents the final version of the reputation scale that resulted — the Reputation Quotient<sup>SM</sup>.

In the most recent test of the instrument on a sample of 16,054 respondents, the 'emotional appeal' items were removed and found that the remaining 17 items load onto a single factor. The authors therefore suggest that reputation is a construct that combines two factors: Emotional Appeal and Rational Appeal — the latter a factor that represents the net assessment of the company on the other five dimensions of the RQ scale.

## CONCLUSION

This paper has argued that 'corporate reputation' is an important construct for both

practitioners and academics. It has also pointed out that, to date, most of the popular measurement instruments have been developed by the business media, and demonstrate a fundamental flaw, namely a tendency to define reputations on the basis of the perceptions of a restricted set of financially oriented stakeholders (CEOs and analysts). The authors therefore suggested that a new, more robust measure of corporate reputation measure was needed that would elicit the perceptions of multiple stakeholder groups<sup>12</sup> and establish the multidimensionality of the construct.

This was done. The result is the Reputation Quotient<sup>SM</sup>, a valid, reliable, and robust instrument for measuring corporate reputations. Future research is expected to continue exploring the properties of the RQ and its cross-cultural generalisability. With a valid measure in hand, it is hoped that the RQ can help further the study of corporate reputations by fostering systematic research on the correlates and consequences of corporate reputation.

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