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ABSTRACT. Different theoretical approaches highlight the growing relevance of corporate reputation as strategic factor. Among these approaches the arguments of the Resource-Based View are special worthwhile (Grant, 1991, *California Management Review* **33**(3), 114–135; Barney, 1999, *Sloan Management Review* Spring, 137–145). Nevertheless, this topic poses several methodological problems (Barney et al., 2001), as the unavailability to identify and measure this organizational factor, that is "socially complex" and intangible in its nature. In this work, using the findings of our empirical research on Spanish biotechnology firms, we carry out an identification and measurement of corporate reputation, highlighting its two key components: "business reputation" and "social reputation".

KEY WORDS: corporate reputation, social reputation, business reputation

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Introduction

Nowadays, a good corporate reputation is one of the main business assets responsible of sustained financial outcomes (Roberts and Dowling, 2002). This strategic potential is due to its own value-creation capability, and to its intangible character, because it makes corporate reputation quite hardly to imitate by competitors, allowing to maintain a superior position. In the present day, we can state that business management researchers and specially researchers from the Resource-Based View (Barney, 1986, 1991; Deephouse, 2000; Dierickx and Cool, 1989; Grant, 1991) have highlighted its strategic nature.

Although the intangible nature is a key characteristic in order to grant its relevance, it also makes very hard to perform a conceptual delimitation, characterization, and measurement (Deephouse, 2000). Corporate reputation holds a complex nature (Barney, 1986; Dowling, 2001; Grant, 1991). Its triggers are deeply rooted in the own organization, and they are tied to its creation and evolution, in an unique historically dependent context (Dierickx and Cool, 1989). Thus, corporate reputation becomes highly specific for each firm. This can be one of the main reasons because there are so little effort in studying a conceptual and empirical delimitation of this asset (Shenkar and Yuchtman-Yaar, 1997). In this vein, we must highlight that most of the

empirical research that tries to relate corporate reputation and competitive advantage, the information sources employed are mainly secondary (Deephouse, 2000; DeQuevedo, 2001). Among other things, this fact is due to the problems that researchers find to make it operative.

Taking into account these problems, this work provides a conceptual delimitation of corporate reputation, as well as an identification of its main dimensions: business reputation and social reputation, and a measurement for it in order to determine its nature empirically, and to allow its measurement.

In order to carry out this task, our work is built upon the following main sections: (i) conceptual delimitation; (ii) identification of the main underlying dimensions: business reputation and social reputation; and (iii) the main conclusions of the study.

The notion of corporate reputation

Trying to conceptualize corporate reputation, Shenkar and Yuchtman-Yaar (1997) provide a synthesis and comparison of how it has been treated from the fields of Sociology, Marketing, Law, Accountancy, Economics, and Business Management. Within the field of Business Management, there are several contributions around corporate reputation. Although it has been a quite common topic in the literature, there is no agreement about what does it mean and what does it include. The work of Groenland (2002) tries to give some guidelines, despite of the fact that the own author could found in its empirical qualitative research (2002: 309), "corporate reputation is, in its essence, a mainly emotional concept that is difficult to rationalize and to explicit".

From the review of the different contributions (Baden-Fuller et al., 2000; Deephouse, 2000; De Quevedo, 2001; Dollinger et al., 1997; Fombrun, 1996; Fombrun and Shanley, 1990; Groenland, 2002; Petric et al., 1999; Rao, 1994; Shenkar and Yuchtman-Yaar, 1997; Roberts and Dowling, 2002; Weigelt and Camerer, 1988), as well as from the characteristics provided by Fombrun and Van Reil (1997), we can pose that corporate reputation is the result of the process of "social legitimization" of the firm. In this sense, we can understand corporate reputation as the collective representation of actions and outcomes of the past and present of the organization, that describe its capability to obtain valuable outcomes for different stakeholders.

The former definition is quite close to the one of Barney's (1999), who remarks the characteristics tied to organizational capabilities – an unique historical context, path dependence, social complexity, and causal ambiguity. These characteristics make them difficult to create or accumulate, and corporate reputation is pointed out as a clear example of all of this.

The present reputation of a certain firm is built or accumulated in a historical context and in unique circumstances that surely can not be repeated. Besides, as Hall (1992) argues, his survey among British managers shows that firm reputation and product reputation need several years to be shaped. This makes clear that the reputation is one of the most difficult to accumulate resources. Dierickx and Cool (1989) argue that, in order to obtain a good reputation, several decisions about operations, quality, etc. are needed.

From the provided definition and the main characteristics that it includes – causal ambiguity, social complexity, slow accumulation, and path dependence – we can find that corporate reputation shows a high rate of tacitness and intangibility, and this makes its identification and measurement really hard. We address this issue in the next section.

Social reputation and business reputation as a key components of corporate reputation: empirical evidence

Several authors highlight the complexity – and the multidimensionality – of corporate reputation. Precisely Barney (1999) argues that reputation is a "socially complex" capability. These socially complex phenomena, as stated firstly in 1991, are out of reach for firm ability in order to get a complete influence and management, as Standifird (2001) says. Deephouse (2000) points out that corporate reputation is developed through time, with a socially complex process in which the firm and its stakeholders – internal and external – are involved.

In this sense, there are not agreements about its conceptual delimitation. One of the most discordant points refers to its multidimensionality (Fombrun and Shanley, 1990). Dollinger et al. (1997) point out the multidimensionality of this construct, identifying

three main components for reputation: managerial reputation, financial reputation, and product reputation. These dimensions are independent and represent different aspects of corporate reputation and their role with different stakeholders.

From a Stakeholders Framework, another interesting proposal is due to De Quevedo (2001). In her research, she highlights the existence of two main dimensions of corporate reputation: internal reputation and external reputation. The first one is related with the "business stakeholders" perception of firm activities – workers, managers, shareholders, customers, allies, suppliers – and the second one is related with the external stakeholders perception of firm activities – society in general. These findings are similar to Deephouse's (2000) work.

The previous comments lead us to the determination of the multidimensionality of corporate reputation as we have defined it, from the analysis of the composition and relations of each of the elements that configure corporate reputation (Fombrun, 1996; Fombrun and Shanley, 1990). These elements are: (i) managerial quality; (ii) financial strength; (iii) product and service quality; (iv) innovation; (v) use of corporate assets/efficiency; (vi) capability to gather, develop, and retain talented people; (vii) social responsibility among the community; and (viii) value of long term investments.

With the purpose to deepen into the data about the elements of corporate reputation we carried out a survey. It was sent to CEO of Spanish biotechnology firms. Following Rouse and Daellenbach (1999), the use of a single industry is a necessary condition to explore intrinsic and complex organizational factors responsible of business success. During 2003 our field research reached a response rate of 58% of the population (n=34 cases).

Then, we performed a factor analysis in order to identify the configuration of those elements. The correlation matrix (Table I) will show the appropriateness of this analysis. As it can be clearly appreciated, almost every correlation is positive, strong and significant, which constitutes a first sign of factor analysis appropriateness.

This appropriateness is supported by the Bartlett test, which allows to refuse the hypothesis that the correlation matrix would be an identity matrix, and the Kaiser–Meyer–Olkin index, holds a value near to one (Table II). All of these tests claim for the appropriateness of factor analysis in this case.

Now we proceed to extracting the factor axis, as well as to interpret the results of Table III.

TABLE I

Correlation matrix

	CGMQ	VILR	CART	PSQ	FS	INV	UA_E	CGSR
Corporate Governance and managerial Quality (CGMQ) pearson correlation	1							
Value of investments in the long run (VILR) Pearson correlation	0.796[a]	1						
Capability to attract, develop, and retain talented people (CART) Pearson correlation	0.447[b]	0.538[a]	1					
Products and service quality (PSQ) Pearson correlation	0.713[a]	0.726[a]	0.371	1				
Financial strength (FS) Pearson correlation	0.563[a]	0.630[a]	0.326	0.473[b]	1			
Innovation level (INV) Pearson correlation	0.791[a]	0.740[a]	0.634[a]	0.826[a]	0.455[b]	1		
Use of assets/efficiency (UA_E) Pearson correlation	0.662[a]	0.613[a]	0.226	0.514[b]	0.429[b]	0.493[b]	1	
Community, green, and social responsibility (CGSR) Pearson correlation	0.473[b]	0.760[a]	0.760[a]	0.609[a]	0.550[b]	0.522[b]	0.609[a]	1

[a]Significant correlation at 0.01 level (bilateral). [b]Significant correlation at 0.05 level (bilateral).

TABLE II

KMO and Bartlett test

Kaiser–Meyer–Olkin measured	807
Bartlett test	
Aprox. Chi-squared	108,888
FD	28
Sig.	000

As we can see in the previous table, every component of corporate reputation can be summarised in one factor that explains 69% of the standard deviation of the original data. The results of Table III, as well as the high correlations among the elements of reputation confirm the conclusions of Fombrun and Shanley (1990), although they obtained a factor that counts for the 84% of the standard deviation from the elements of reputation according to *Fortune* data.

The previous results confirm the suspicions of financial bias in measuring reputation, a traditional issue in this kind of research (Brown and Perry, 1994; Fombrun and Shanley, 1990; McGuire et al., 1990). This financial halo or bias represents that the assessments of the different elements of corporate reputation are interpreted taking into account the economic and financial performance of the firm.

This bias comes from a homogeneous sample for the survey. In our research, as it happens in *Fortune*, participants are general managers and industry experts, whom are mainly worried about financial issues. This leads them to answer to the rest of elements of corporate reputation in a similar way.

This fact makes necessary to detect the possible existence of a financial halo in our measurement. If its presence is confirmed, we will try to eliminate it using the methodology proposed by Brown and Perry (1994).

In the scientific literature, there are two test for detecting the financial halo: (i) checking that in the factor analysis every item supports an only axis, that explains a wide portion of the standard deviation (Dillon et al., 1984); and (ii) Brown and Perry (1994) propose to use the determination coefficient of the regression that takes an independent variable as financial bias index, and measured reputation as dependent variable. If the explained standard deviation is high and significant, this will be a sign of the presence of financial halo.

The first of these tests for detecting the financial bias can be assessed using the results shown in Table III. As we have commented above, the eight elements of corporate reputation contribute to an only factor that explains almost the 69% of the standard deviation of the original data. Although this figure does not reach the 80% obtained by De Quevedo (2001), we can conclude that there is a clear sign of the existence of financial halo.

The other test that we use is the one proposed by Brown and Perry (1994). With it we try to determine the high and significant influence of past performance over the measure of present corporate reputation. According to the original proposal, a financial halo index must be created in order to measure the independent variable. This index was built with the following operational and financial

TABLE III

Main component analysis

Component	Initial auto-values			Sum of saturation at extraction squared		
	Total	% of standard deviation	Accumulated %	Total	% of standard deviation	Accumulated %
1	5.500	68.756	68.756	5.5	68.756	68.756
2	0.770	9.627	78.383			
3	0.663	8.285	86.668			
4	0.509	6.360	93.028			
5	0.261	3.266	96.294			
6	0.135	1.694	97.988			
7	0.097	1.211	99.199			
8	0.064	0.801	100.00			

variables: (i) average ROA of the last 3 years; (ii) market value over book value of the firm; (iii) sales log; (iv) medium increase of sales during the last 3 years; and (v) risk, measured as the relation between debts and investment. The results of this work show a portion of the standard deviation of the dependent variable – the set of the eight components of corporate reputation – explained by the financial halo index of 55%, higher than the detected by McGuire et al. (1990) or Fombrun and Shanley (1990). Nevertheless, the methodology developed by Brown and Perry (1994) propose to perform nine multiple regressions, one for each element of reputation, and one more for the global reputation of each firm.

Because of the specific characteristics of Spanish biotechnology industry, specially because its emergent state (according to the Asebio Report 2002, 40% of firms are younger than 2-years-old, and none of the firms of the sample was a public company), we decide to create the index according to the following concepts: (i) average ROA of the last 2 years (2001 and 2000); (ii) 2001 sales log; (iii) medium increase of sales during 2001 and 2000; and (iv) risk taken in 2001, measured as debts over total liabilities.

As a preliminary step to making the appropriate multiple regression analysis, in Table IV we show the correlations among the variables included in the study.

Then, in Table V, the results of the nine regressions performed (one for each component of reputation, and one for global reputation) are shown. Each regression has been run over the total of our sample, according to the following general expression for the regression equation:

$$\text{Element} = \beta_1 + \beta_2 \text{AVROA} + \beta_3 \text{RISK01} + \beta_4 \text{SALELG01} + \beta_5 \text{SALEINCR} + \varepsilon$$

Where, AVROA: average ROA during the years 2000 and 2001; RISK01: financial risk taken in 2001 (total investment over total liabilities); SALELG01: 2001 sales log; SALEINCR: the average sales increase in 2001 with respect to 2000.

Lastly, we show the residue of the estimation that represents the value of each component of corporate reputation free from financial bias.

The results of the nine previous regressions show a clear presence of financial halo, due to the fact that every regression holds high regression coefficients, significant for acceptance values (Table V). Those values are coherent with the results obtained and validated by Brown and Perry (1994).

Once the financial halo has been detected, we must try to correct it. Following the methodology proposed by Brown and Perry (1994), once the financial halo has been detected, with high and significant R^2, we must eliminate it from the components of reputation. In doing so, we accept that the residues obtained from the regression, namely, the portion of component that is not explained by the financial halo index, are the measurement of the components of corporate reputation without financial halo.

From these residues or components without financial halo, we run a new factor analysis to determine the dimensions of corporate reputation (see Table VI).

Then, we proceed to extract the factorial axis, as well as to discuss the results shown in Table VII.

Following the factor weight pattern we will interpret the obtained factors.

The first factor can be understood as the corporate reputation related to the main issues of the core business. This way, the component that holds a higher correlation with this factor is product and service quality, followed by the innovation degree of the firm. Besides, this factor includes elements related to investment value in the long run, the efficiency in the use of corporate assets, and the capability to attract, develop and retain talented workers.

The second factor shows important weights of the two variables or components that it includes: financial strength, and social and green firm responsibility. Once the financial bias has been corrected, it seems coherent that social responsibility will be apart from the rest of components of corporate reputation. The lack of separation between this element and the rest was exactly the beginnings of the debate about the presence and correction of financial bias in the literature (Brown and Perry, 1994; Dillon et al., 1984). Thus, this result support previous works and shows a new proof of bias correction.

Nevertheless, there is an interesting issue about the inclusion of this element in the second factor, with financial strength. It seems appropriate of financial strength to hold weak ties with the reputation about product and service quality, or with

TABLE IV

Correlations among the variables included in the study

	CGMQ	VILR	CART	PSQ	FS	INV	UA_E	CGSR	RISKO01	AVROA	SALELG01	SALEINCR
(CGMQ) Pearson correlation	1											
(VILR) Pearson correlation	0.796[a]	1										
(CART) Pearson correlation	0.447[b]	0.538[a]	1									
(PSQ) Pearson Correlation	0.713[a]	0.726[a]	0.371	1								
(FS) Pearson correlation	0.563[a]	0.630[a]	0.326	0.473[b]	1							
(INV) Pearson correlation	0.791[a]	0.740[a]	0.634[a]	0.826[a]	0.455[b]	1						
(UA_E) Pearson correlation	0.662[a]	0.613[a]	0.226	0.514[b]	0.429[b]	0.493[b]	1					
(CGSR) Pearson correlation	0.473[b]	0.760[a]	0.760[a]	0.609[a]	0.550[b]	0.522[b]	0.609[a]	1				
RISK01 Pearson correlation	−0.624[a]	−0.709[a]	−0.409	−0.434	−0.714[a]	−0.438	−0.626[a]	−0.610[b]	1			
AVROA Pearson correlation	−0.229	−0.074	−0.006	−0.105	−0.043	−0.354	−0.127	0.360	0.084	1		
SALELG01 Pearson correlation	0.167	0.145	0.138	0.244	0.392	0.184	−0.190	0.133	−0.183	0.231	1	
SALEINCR Pearson correlation	−0.594[b]	−0.657[a]	−0.399	−0.450	−0.408	−0.712[a]	−0.675[a]	−0.710[a]	0.285	−0.324	−0.258	1

[a]Correlation is significant at 0.01 level (bilateral).
[b]Correlation is significant at 0.05 level (bilateral).

TABLE V

Results of regression analysis in order to correct the financial halo

Element	CONSTANT	AVROA	RISK01	SALELG01	SALEINCR	F	Corrected R^2
Corporate Governance and managerial quality	8.476** (3.371)	−1.697 (−0.308)	−4.258* (−1.993)	−0.29 (−0.083)	−0.83* (−1.974)	3.311**	0.381
Value of investments in the long run	10.460*** (5.592)	−1.369 (−0.334)	−6.215** (−3.910)	−0.202 (−0.777)	−0.097* (−3.078)	10.54***	0.718
Capability to attract, develop and retain talented people	11.402** (3.366)	−14.782* (−1.991)	−7.162** (−2.488)	0.021 (0.044)	−0.80 (−1.412)	2.602*	0.299
Products and service quality	6.092*** (4.041)	−0.374 (−0.836)	−3.108** (−2.561)	0.198 (0.984)		3.018**	0.263
Financial strength	7.601** (3.413)	9.756* (1.999)	−4.567** (−2.413)	0.007 (0.023)	−0.021 (−0.550)	7.150**	0.621
Innovation level	8.416** (3.736)	−7.679 (−1.148)	−4.519** (−2.204)	0.022 (0.064)	−0.116** (−3.005)	4.842**	0.542
Use of assets/efficiency	8.774*** (4.911)	0.381 (0.097)	−3.204** (−2.110)	−0.206 (−0.162)	−0.084** (−2.805)	5.326**	0.536
Community, green and social responsibility	7.809** (3.241)	−2.078 (−0.306)	−5.573** (−2.722)	0.216 (0.607)	−0.104** (−2.707)	7.460**	0.683
Global corporate reputation	8.300*** (4.777)	−4.939 (−1.008)	−5.046** (−3.418)	0.095 (0.370)	−0.078** (−2.812)	8.044**	0.701

***p<0.01; **p<0.05; *p< 0.1.

TABLE VI

KMO and Bartlett test

Kaiser–Meyer–Olkin measured	656
Bartlett test	
Aprox. Chi-squared	73.990
FD	28
Sig.	000

innovation rates. Nevertheless, to appear with firm social responsibility can be explained. A priori, according with the responses of the managers from this industry, social and green responsibility was the last element of corporate reputation ranked by relevance (it counted for 7% of global reputation). Thus, managers will only allocate resources to social responsibility when financial surplus will be available. This idea supports to include both elements together in the second factor, that we named "social reputation".

The obtained results and its discussion confirm the two dimensions of reputation obtained by De Quevedo (2001) or just defended by Brown and Perry (1994).

Once the two dimensions of corporate reputation have been presented, we will discuss the validity and reliability tests. Calculating Cronbach's α we can check the reliability degree of the scale. The obtained results show figures of 0.84 for the first factor and of 0.87 for the second one. These results are higher than the critical level of 0.70, required for accepting the reliability of the scales.

Both empirical literature review about corporate reputation, and in-deep interviews conducted with industry experts and managers (the first stage of fieldwork) provide content validity for the proposed measures.

From a theoretical perspective, we can affirm the degree of tacitness embedded in both dimensions of corporate reputation (business reputation and social reputation). This fact lies in the own complexity of the components that corporate reputation holds (in example, corporate governance and managerial quality, capability to attract and retain talented employees, innovation, or social and green responsibility) and in the interrelations that appear among these components (see Figure 1).

The second issue in determining complexity degree, exogenous complexity, takes into account the number of resources and capabilities that are included in corporate reputation. The previous paragraph and Figure 1 can justify this issue. In testing it empirically we can again use the correlation coefficients, high and significant, among the different elements of "business reputation" (in the example, we find a Pearson correlation coefficient of 0.794 between "corporate governance and managerial quality" and "product and service quality", and of 0.695 between "innovation" and "efficiency in using corporate assets") and the two elements that configure the second dimension, "social reputation" (with a Pearson correlation coefficient of 0.782). The complex nature of corporate reputation can be seen graphically in Figure 1.

The commented issues lead us to state that, from an empirical point of view, corporate reputation holds a high level of complexity. This makes of it one of the more complex firm capabilities. Although this characteristic has been extensively highlighted by the authors of the Resource-Based View (Amit and Schoemaker, 1993; Barney, 1986, 1991; Grant, 1991; Roberts and Dowling, 2002), our descriptive analysis tests this point empirically.

Conclusions: the business and social dimensions of corporate reputation

This work presents an exploratory analysis of corporate reputation, focused on determining its key dimensions empirically. Thus, according to other theoretical approaches (*stakeholders*) and previous works (Deephouse, 2000; DeQuevedo, 2001), we have found two key components:

- Business reputation, that includes the different aspects of corporate reputation related to the agents and stakeholders that appear closely tied to the business activities and processes of the firm, as customers, suppliers, managers or employees.
- Social reputation, which is the result of the insights and perceptions of other stakeholders that are not so close to day by day business activities, as investors and the community in a wider sense.

TABLE VII

Main component analysis

Components	Initial auto-values			Sum of saturation at extraction squared			Sum of saturation at rotation squared		
	Total	% of standard deviation	Accumulated %	Total	% of standard deviation	Accumulated %	Total	% of standard deviation	Accumulated %
1	3.397	49.666	49.666	3.973	49.666	49.666	3.830	47.879	47.879
2	2.228	27.853	77.519	2.228	29.853	77.519	2.371	29.640	77.519
3	0.713	8.917	86.437						
4	0.535	6.690	93.127						
5	0.314	3.929	97.056						
6	0.185	2.307	99.363						
7	0.042	0.520	99.883						
8	0.009	0.117	100.000						
					Component 1			Component 2	
Matrix of rotated components[a]									
CGMQ (free from financial risk)					0.712				
VILR (free from financial risk)					0.899				
CART (free from financial risk)					0.560			0.535	
PSQ (free from financial risk)					0.915				
FS (free from financial risk)								0.906	
INV (free from financial risk)					0.882				
UA_E (free from financial risk)					0.755				
CGSR (free from financial risk)								0.949	

Extraction Method: Main Component Analysis.

Rotation Method: varimax normalization with Kaiser.

[a]Rotation has converged after 3 iterations.

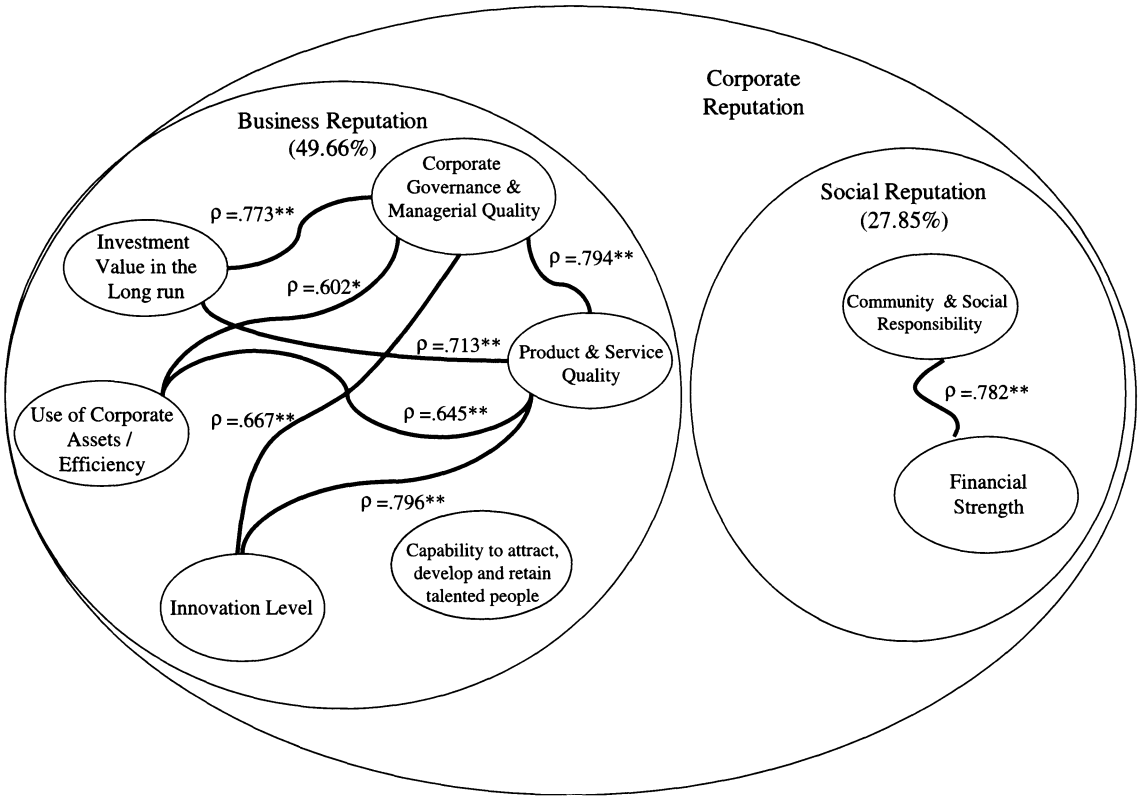

Figure 1. The complexity of corporate reputation.

Summarizing, this research goes deep into the study of corporate reputation, suggesting the coexistence of two different dimensions. This point suggests an important novelty for understanding corporate reputation as a key element in the legitimization process of the firm towards the community and society.

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