# Academic Research

# Perceived Organizational Reputation and Organizational Performance: An Empirical Investigation of Industrial Enterprises

**Abraham Carmeli**
***Bar-Ilan University, Israel***

**Asher Tishler**
***Tel Aviv University, Israel***

**ABSTRACT**
*This study analyzes the complex set of relationships among perceived organizational reputation, firm's quality of products/services, customers' satisfaction and multiple performance measures. A path analysis shows that reputation is influenced by customers' satisfaction, which is a mediator in the relationship between the firm's quality of products/services and reputation. Reputation is associated with the firm's growth and accumulation of customers' orders, but is not directly associated with market share, profitability and financial strength. Market share influences a firm's profitability and is a function of the firm's growth and accumulation of customers' orders, but it has no influence on the firm's financial strength.*

**KEYWORDS:** *Perceived organizational reputation, organizational performance, customers' satisfaction, quality of products/services*

## INTRODUCTION

Considerable research by scholars and practitioners has recently been devoted to identifying the predictors and understanding the consequences of organizational reputation. A prominent theoretical framework for assessing the importance of organizational reputation is the resource-based view of the firm (RBV). According to the RBV framework, the heterogeneity of the resources of different firms leads to differences in their competitive advantage and performance variance (Prahalad and Hamel, 1990; Reed and DeFillippi, 1990; Wernerfelt, 1984). Gaining and preserving a sustainable competitive advantage (SCA) depends on the unique bundle of core resources that a firm has developed, acquired and deployed in the competition arena (Aaker, 1989; Amit and Schoemaker, 1993; Barney, 1991, 1995; Grant, 1991; Wernerfelt, 1984).

According to Fombrun (1996: 57) 'corporate reputations are held by people inside and outside a company'. Firms consistently compete to be better-regarded companies; a status that reflects a competitive advantage and, possibly, superior performance (Fombrun, 1996). A favorable organizational reputation is, by definition, a strategic resource, as it reflects the firm's competitive position relative to its competitors. A firm with a favorable organizational reputation has a competitive edge over its rivals that, according to Fombrun

Corporate Reputation Review,
Vol. 8, No. 1, 2005, pp. 13–30

1363–3589

and Shanley (1990: 223), 'may enable firms to charge premium prices, attract better applicants, enhance their access to capital markets and attract investors'.

Considerable efforts have also been devoted to studying the relations between organizational reputation and the organization's financial performance and stock market value (Antunovich *et al.*, 2000; Hammond and Slocum Jr., 1996; McGuire *et al.*, 1988; McMillan and Joshi, 1997; Roberts and Dowling, 1997; Srivastava *et al.*, 1997; Vergin and Qoronfleh, 1998). To date, most studies have concentrated on the relationship between organizational reputation and the firm's performance by separately analyzing the influence of each individual dimension of organizational reputation on the financial and market performance of the organization.

This study's major goal is to extend the model that describes the relationship between perceived organizational reputation and the firm's performance by looking at the firm's performance as a multidimensional measure. The authors use CEOs, beliefs and evaluation of their company's reputation as proxies of the actual reputation of the firm (ie perceived organizational reputation).[1] It would have been preferable to use objective data, but unfortunately they were not available for the companies in this study. Specifically, this study aims to show that the organization's reputation affects the organization's financial performance and its market performance differently. Furthermore, it is also suggested here that the quality of products/services and customer satisfaction have different effects on organizational reputation. Thus, instead of looking for a direct and positive correlation between quality of products/services and customer satisfaction and organizational reputation, the authors suggest looking for a mediated relationship, in which the relationship between the quality of products/services and organizational reputation is mediated by customer satisfaction. This mediation was suggested by Lipovetsky *et al.* (1997), who found that benefits to the customer (ie the extent to which the customer is satisfied with the product characteristics) was, by far, the most significant dimension of success in technological projects undertaken by Israeli defense firms. This study enhances the understanding of the relations between perceived organizational reputation and multiple-performance measures of the firm. It also clarifies the relations between the quality of products/services, customer satisfaction and the perceived organizational reputation of the firm.

This study emphasizes two major findings. First, high quality of products is not directly associated with overall perceived organizational reputation. Rather, the relationship between quality of products/services and perceived organizational reputation is mediated by customer satisfaction. Secondly, the empirical findings of this study suggest that the effect of perceived organizational reputation on the firm's profitability and financial strength is not direct. Hence, top management should not perceive the firm's growth as the ultimate and only goal. Rather, both the firm's growth and its market share serve as mediating variables in gaining high profitability.

This paper is organized as follows. The next section describes the theoretical background of organizational reputation as a strategic resource that yields a sustainable competitive advantage and leads to a superior performance by the organization. The conceptual model and hypotheses are then presented. The research method — participants, measures and data analysis — is followed by the results of the study. Finally, there is a discussion, which lists the limitations of this research and suggests areas for future research.

## THE THEORETICAL BACKGROUND

### The Resource-based View of the Firm

Organizational reputation is of increasing interest to researchers and practitioners in resource-based strategic management. The RBV suggests that firms should be analyzed in terms of their resources, not only in terms of their product market activities (Wernerfelt, 1984). A basic premise is that firms are not alike. Different firms are expected to possess different profiles of resources (Amit and Schoemaker, 1993; Peteraf, 1993) and this heterogeneity of organizational resources — both tangible and intangible — accounts for differences in firms' competitive advantage and variability in performance (Prahalad and Hamel, 1990; Reed and DeFillippi, 1990).

Resources are considered *strategic* or *core* if they differentiate a firm strategically (Leonard-Barton, 1992). The fundamental insight of the RBV is in steering researchers toward firm-specific resources as the real source of sustainable competitive advantage and above-normal performance of the firm (Ghemawat and Pisano, 2000; Penrose, 1959; Reed and DeFillippi, 1990; Rumelt, 1984; Teece *et al.*, 1997; Wernerfelt, 1984). Thus, when using the term *resource* it means a *strategic resource*, one that creates a competitive advantage. Competitive advantage is generated only when a firm is implementing a value-creating strategy that is not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991: 102). Collis and Montgomery have encapsulated the rationale behind the RBV, whereby resources are 'the substance of strategy, the very essence of sustainable competitive advantage' (1998: 27). Intangible resources are very important for achieving a competitive advantage (eg Ambrosini and Bowman, 2001) because they are *valuable*, *rare*, difficult or costly to *imitate*, *substitute* and *transfer* (Barney, 1991, 1997; Dierickx and Cool, 1989; Reed and DeFillippi, 1990; Peteraf, 1993).

### Organizational Reputation — Definition

Organizational reputation is a construct that is not easy to define (eg Dowling, 1988). The inherent difficulty in finding a sole explicit definition for this construct results from the wide range of facets it embodies. The concept *reputation* is used by several different disciplines, each of which defines it differently (Deephouse, 2000: 1093). Furthermore, reputation is determined according to the observer's perceptions and interpretations (Clark and Montgomery, 1998: 65). Researchers perceive reputation as a 'fragile resource' (Hall, 1993: 616), which changes over time (Ching *et al.*, 1992: 291), yet enjoys relative stability (Barney, 1997: 226), reflects cumulative investments (Fombrun and Shanley, 1990: 254) and exists as a concept distinct from other organizational behavior constructs (Jones, 1996: 286).

Reputation reflects the firm's structure and a large variety of its activities. Olins (1990) related reputation and an organization's identity arguing that they include everything the organization does regarding four major areas of its activity: first, products/services — what it makes or sells; secondly, environments — where (in which physical place) it makes or sells its products/services; thirdly, information — how it describes and publicizes its activities; and fourthly, behavior — how the members of the organization behave to each other and to non-members. Fombrun (1996: 72) suggests that corporate reputation consists of four interrelated characteristics: credibility, reliability, responsibility and trustworthiness. Elsbach and Glynn (1996) suggest three types of reputation that firms attempt to cultivate: toughness, high quality and distinction. Shrum and

Wuthnow (1988) claim that reputational status is not simply a function of market position, but is more complex insofar as it is a function of past performance, the structure and the network position of the organization. According to Vergin and Qoronfleh (1998: 22), reputation reflects everyday behavior as exhibited through numerous small decisions. Empirical support for this argument is provided by Yoon *et al*. (1993), who found that a purchaser's response to a service was consistent with their attitude toward the reputation of the vendor. Petrick *et al*. (1999: 63) extended this view, claiming that reputational capital is the initial part of social capital that solidifies credibility, reliability, responsibility, trustworthiness and accountability. Deephouse (2000: 1097) refers to media reputation, which is the 'overall evaluation of a firm presented in the media'. Wartick (1992: 34) referred to corporate reputation as 'the aggregation of a single stakeholder's perceptions of how well organizational responses are meeting the demands and expectations of many organizational stakeholders'.

## The Strategic Role of Organizational Reputation

A critical question is to what extent organizational reputation is considered to be a strategic resource of the firm. Having a favorable organizational reputation means that the firm's constituencies perceive the firm as more attractive than other firms. The decision of these constituencies to enter into a contract with a firm is based, among other considerations, on its reputation (Clark and Montgomery, 1998; Fombrun, 1996; Fombrun and Shanley, 1990; Weigelt and Camerer, 1988). According to Fombrun (1996), when one enters into a contract with a supplier of a product or service (eg travel agent, contractor, lawyer, accountant etc), it is most likely that the decision to choose one supplier over the others is based on information including recommendations regarding each supplier's reputation. Thus the choice is based, at least to some extent, upon the reputation — favorable or unfavorable — of those suppliers. This point is also emphasized by Dollinger *et al*. (1997), who note that a firm's reputation is an important criterion in it being targeted for a joint venture. Podolny (1993) argued that a favorable status in the market enables a firm to access critical resources. Stuart *et al*. (1999) found that the ability of young biotech firms to acquire critical resources for survival and growth depends on the prestige of their affiliates (eg alliance partners, investment banks etc). Firms that established relationships with highly regarded equity partners were more likely to have prominent alliance partners and to use prestigious investment banks.

Organizational reputation is an intangible resource, representing an overall assessment of the firm's current assets, position and expected future performance (Teece *et al*., 1997: 521). As a core resource, organizational reputation could be a major factor in gaining a competitive advantage and fortifying the organization's financial position because it is difficult for competitors to match the prestige and esteem created by reputation (Hall, 1992: 138). According to Shrum and Wuthnow (1988: 909), 'reputational status becomes a critical resource for organizational managers' and represents the outcome of a competitive process in which firms signal their key characteristics to constituents in order to maximize their economic and non-economic (social) status (Fombrun and Shanley, 1990: 234). Based on Fombrun (1996) and Fombrun and Shanley (1990), a favorable organizational reputation may generate several competitive advantages for a firm, including (1) delaying rivals' mobility in the industry, (2) charging premium prices (see also Benjamin and Podolny, 1999), (3) attracting better applicants as well as investors, (4) enhancing its access to capital markets, (5) building a strong morale among employees and (6) improving both economic and non-economic results. As suggested by Podolny and Feldman (1997: 10), status is most valuable in those markets in which consumers find it difficult to observe the true quality of the goods or services and when producers are certain as to which resource allocation decisions will result in outputs that are highly valued by customers.

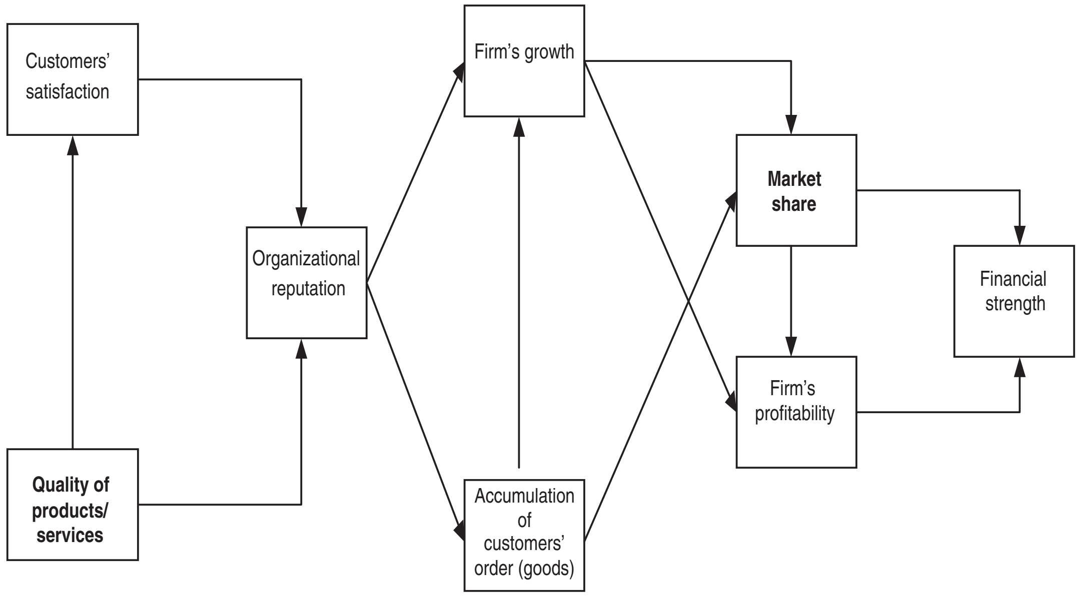
During the 1990s, the relationship between organizational reputation and financial and market performance received substantial attention by researchers. Hall (1992, 1993) demonstrated that CEOs of British firms identified company reputation as the most important intangible resource (among 13 resources) for the firm's success. McMillan and Joshi (1997) provided further support to Hall's findings that intangible resources (including reputation) lead to SCA. Roberts and Dowling (1997: 75) found that 'corporate reputation is an extremely important strategic asset' and 'superior performers with favorable reputation are able to sustain superior outcomes for longer periods of time'. Srivastava *et al.* (1997) showed that corporate reputation affects the firm's value by influencing how investors perceive the firm's risk. McGuire *et al.* (1988) demonstrated that accounting-based measures, particularly return on assets (ROA), proved to be significant predictors of a firm's reputation for social responsibility. Hammond and Slocum (1996) found that two financial factors — the standard deviation of the market rate of return of the firm's stock and return on sales — provided a good explanation of the firm's reputation. Fombrun and Shanley (1990) found that a firm's reputation is highly associated with its profitability and Russo and Fouts (1997) showed a positive relationship between environmental reputation and ROA. Antunovich *et al.* (2000) found that the most-admired firms, according to the *Fortune Magazine* survey, outperform (on average) the market, while the least-admired firms under-perform within it.

Although the relationship between corporate reputation and the firm's market and financial performance is supported by most studies, there is no agreement on the precise financial measures that are associated with corporate reputation. Thus, this paper explores the interrelationship between organizational reputation and multiple performance measures. By doing that, it may be able to provide a better understanding of the influence of organizational reputation on financial and market performance. Moreover, this paper may be able to enrich the model by exploring the interrelationship between the quality of the firm's products/services, customers' satisfaction and organizational reputation.

## THE CONCEPTUAL MODEL AND HYPOTHESES

The conceptual model utilized here is presented in Figure 1. Several studies have addressed the interrelationship between the quality of products/services (QP/S), customers' satisfaction (CS), organizational reputation and market and financial performance. Yet, to the authors' knowledge, previous studies have not explored the entire interrelationship as depicted in Figure 1. This model suggests examining the relationship between QP/S and CS and their influence on organizational reputation. It also suggests that rather than exploring the relationship of organizational reputation with separate performance dimensions (market or financial), benefit may be gained from using a multivariate analysis that examines the intercorrelations among several performance measures (Dvir *et al.*, 1998). The rationale of using this approach is the premise that organizational

***Figure 1:*** *The conceptual model*




reputation might be differently correlated to some measures of a firm's performance (eg market performance and financial performance).

### Quality of Products/Services, Customers' Satisfaction and Organizational Reputation

A firm has a good reputation if consumers believe its products to be of high quality (Shapiro, 1983). Thus, high-quality firms are often high-reputation firms, or *blue-chip* companies (Antunovich *et al*., 2000). Most of the players in the market prefer to invest in high-quality firms, since this investment is considered 'safe', yielding above-normal returns. Scholars disagree about the merit of this approach. While Lakonishok *et al*. (1994) provide evidence that opposes the preference *blue-chip* companies, Antunovich *et al*. (2000) provide strong support for this preference, showing that the most admired firms earned above-normal market performance. This controversy raises the need to investigate the relationship between QP/S and organizational reputation, rather than assigning a direct relationship between a firm's QP/S and performance.

Corporate reputation is determined by the core images or perceptions of the company that are held by multiple constituencies. Underlying those perceptions is the impression made by the quality of the firm's products and services. General Electric (GE) sustained its ongoing favorable reputation's status by using a particular image of QP/S: 'We bring good things to life'. The QP/S is at the core of GE's reputation. Recently, Garud and Lampel (1997) showed that improper product announcement ultimately would harm a company's reputation deeply. This finding suggests that a firm's QP/S should meet the expectations of the customers, thus increasing satisfaction with its products and services. Johnson & Johnson's credo, written in 1943 by its chairman Robert Wood Johnson, is a good example. It states, 'We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs, everything we do must be of high quality' (Alsop, 1999). Johnson & Johnson's credo suggests that the quality of the products and/or services alone is not sufficient for meeting customers' (doctors, nurses, etc) satisfaction. Another example is Check Point Software Technologies, an Israeli-based network security company, which has become the top internet security provider, with some 52 per cent of the world's virtual private networks (VPN) market, as of July 2000. In its first days, one of the company's founders, Gil Shwed, directed efforts toward gaining a reputation as a government and military software provider, since this ensured quality approval for the company's products from a highly valued customer, the Israel Defense Force (IDF). Today, Check Point's success is attributed not only to the reliability, credibility and trustworthiness of its products, but mostly for its ability to enable customers to save 'easily US$60,000 a month' (Pruzman, 2001). In line with these arguments, the following hypotheses are proposed:

**$H_{1a}$:** *A firm's quality of products/services is positively related to organizational reputation.*

**$H_{1b}$:** *A firm's quality of products/services is positively related to customers' satisfaction.*

**$H_{1c}$:** *Customers' satisfaction is positively related to organizational reputation.*

### Organizational Reputation and Multiple Performance

The right side of the model depicted in Figure 1 indicates that rather than exploring the influence of organizational reputation with an independent measure of performance, it is better to analyze multi-attribute measures of performance and how they are influenced by organizational reputation. The present model suggests that organizational reputation has a direct influence only on two performance measures — the firm's growth and accumulation of customers' orders (ACO) (clearly, profitability depends on, in addition to ACO and the firm's growth, the production cost and efficiency of the firm). Firms with a favorable organizational reputation have the ability to enhance their ACO and turnover. Penrose (1959) claimed that the firm's growth is dependent on its resources and Itami with Roehl (1987) emphasized the importance of intangible (invisible) resources. Yoon *et al.* (1993) showed that intentions of customers to buy an insurance program depend on the reputation of the insurance company. Shapiro (1983) argued that a favorable product-quality-based reputation enables a firm to require a premium, which eventually provides a flow of profits that compensates the seller for the resources expended in building up the reputation. Although a firm's reputation does not necessarily constitute a barrier to entry, but is more likely a cost of entry (Shapiro, 1983), it enables the firm not only to maintain its customers, but also to recruit new ones, which enhances the firm's turnover. As building up and maintaining a good reputation takes time and resources, however, it is unreasonable to expect that the premium the firm demands from its customers will compensate for the investment in the short term. Thus, it can be expected that the growth in ACO and revenues will only eventually be transformed into profits.

ACO and the firm's growth (eg growth in sales) may affect other performance measures. The authors expect that the firm's growth would enhance its market share and profitability, which, in turn, affects the firm's financial strength. It is also expected that ACO will be associated with market share, but not necessarily with the firm's profitability. The rationale behind these relationships is that the firm's growth is not an assurance of financial strength. Rather, it enables the firm to recruit and maintain customers and position it as a dominant actor in the market. Eventually, if the firm's production and distribution are efficient, it will be transformed into profits. The collapse of many internet-based firms during 2000–01 resulted from a mistaken strategy of setting growth in revenues and market share as the firms' objectives rather than long-term profitability and financial strength. In accordance with these arguments, the following hypotheses are proposed:

- **$H_{2a}$:** *Organizational reputation is positively related to the firm's growth.*
- **$H_{2b}$:** *Organizational reputation is positively related to the accumulation of customers' orders (ACO).*
- **$H_{2c}$:** *ACO is positively related to the firm's growth.*
- **$H_{2d}$:** *ACO is positively related to market share.*
- **$H_{2e}$:** *The firm's growth is positively related to market share.*
- **$H_{2f}$:** *The firm's growth is positively related to the firm's profitability.*
- **$H_{2g}$:** *Market share is positively related to the firm's profitability.*
- **$H_{2h}$:** *Market share is positively related to the firm's financial strength.*
- **$H_{2i}$:** *The firm's profitability is positively related to its financial strength.*

## THE DATA AND THE RESEARCH METHODOLOGY

### Participants and Data Collection

The data used in this study were taken from a comprehensive research project that evaluated organizational competencies (organizational communication, organizational culture, internal control and others) of Kibbutz-owned industrial enterprises.

The sample of the study was drawn from a population of 300 Kibbutz-owned industrial enterprises in Israel. A Kibbutz is a collective settlement that is based on agriculture and industry (Segev, 1987). The importance of the Kibbutz industry to Israeli industry is demonstrated in the official website of the Kibbutz Industries Association (KIA): 'the Kibbutz industries' share in Israel's industry amounts to 7 per cent of sales; 9 per cent of exports; 7 per cent of investment and 6.5 per cent of industrial employment' (www.kia.co.il/fabout.htm, 2001).

Information regarding the Kibbutz industrial enterprises was drawn from a list of all the Kibbutz enterprises, as published by the KIA (KIA, 1999). The list includes 385 industrial enterprises. The authors deleted from the sample the very small enterprises and sub-units of larger businesses. The sample included industrial enterprises from a variety of industries from the *old economy* (eg agriculture, food, textile, steel and plastics) and the *new economy* (eg biotechnology, electronics and pharmaceuticals) and is a good representation of Israel's industry.

A questionnaire to the enterprise's CEO was mailed from and returned to a university address, using a self-addressed reply envelope. In order to encourage the participants to take part in this study, two commitments were made. First, a cover letter guaranteed the complete anonymity of the respondents. Secondly, the authors promised to deliver the results and conclusions of this study to all participants. Two mailing waves were conducted in order to obtain a high response rate. In total 95 questionnaires were returned, yielding a response rate of approximately 32 per cent (this response rate is similar to previous studies of the same research population (Segev, 1987)). Due to missing data, only 86 questionnaires were usable for this study. About 20 per cent of the enterprises belonged to the high-tech sector. The average age of the enterprises was 27.7 years (standard deviation (s.d.) 15.2). The sample's average number of employees was 94 and the average annual turnover was about US$15m. The average age of the CEOs of the enterprises was 49 years (s.d. 7) and their mean tenure in the organization was 5.5 years (s.d. 4.4). All but one of the respondents were men. The majority of the CEOs (87 per cent) held at least a BA-level degree. The other 13 per cent had 14 or less years of education.

## Measures

The study analyzed the relations between measures of quality of products/services, customers' satisfaction, perceived organizational reputation and performance measures of the industrial enterprises in the sample. These measures are described below.

### *Firm performance*

Five measures of the performance of each firm were included in this study: growth, profitability, financial strength, market share and accumulation of customers' future orders (definitions are given below). The participants were asked to rate their firm's performance relative to its competitors. Each measure was assessed on a five-point scale (ranging from 1 = much less than the competitors, 2 = less than the competitors, 3 = as good as the competitors, 4 = better than the competitors, to 5 = much better than the competitors). *Firm's growth* was measured by the rate of growth in the firm's revenues relative to last year. The *profitability* measure included two items: profit margin (the ratio between annual profits before taxes and annual revenues) and return on equity (ROE: the ratio between profits after taxes and total stockholders' equity). The Cronbach alpha reliability coefficient of this measure was 0.86. *Financial strength* is defined as the extent to which a firm is able to cover its current liabilities with assets that can be converted quickly into cash. Specifically, this measure equaled the ratio between the firm's current assets and its current liabilities. *Market share gain* was defined as the enterprise's estimate of last year's change in its market share. Finally, *accumulation of customers' orders* was the change in the customers' orders during the last year.[2]

### *Perceived organizational reputation*

This measure was based on *Fortune Magazine*'s 'Annual Survey of America's Most Admired Corporations'. This survey is conducted among 8,000 top executives, outside directors and financial analysts, who are asked to rate the ten largest companies in their own industry on eight attributes, using a scale of 0 (poor) to 10 (excellent). The attributes are quality of management; quality of products or services;[3] innovativeness; long-term investment value; financial soundness; ability to attract, develop and retain talented people; community and environmental responsibility; and use of corporate assets (eg Smith, 1990). This index has been used in numerous studies, eg Fombrun and Shanley (1990); Fryxell and Wang (1994); Gatewood *et al.* (1993) and McGuire *et al.* (1988). Some studies have used this index of reputation to evaluate overall corporate reputation (eg Fombrun and Shanley, 1990; Fryxell and Wang, 1994), while others used only its components, mainly corporate social responsibility (eg Hammond and Slocum, 1996; McGuire *et al.*, 1988).

*Fortune Magazine's* 'Corporate Reputation Index' often has been criticized. It has been argued that (1) from the start, the index was not intended for scientific research (eg Deephouse, 2000); (2) the survey is limited to certain constituencies without taking into consideration other stakeholders' opinions (eg Fombrun, 1996;

Fryxell and Wang, 1994; Wood, 1995); (3) the survey is limited to a certain population (ie large US corporations) and has not been extended to other business populations. Nevertheless, this index is well regarded in the literature. Here the overall index was used, rather than a subset of its components, since previous studies (eg Fombrun and Shanley, 1990; Fryxell and Wang, 1994) have found using factor analysis that all eight components of the index were loaded on a single factor. A test of a one-factor model, applied to this study's overall corporate reputation index, yielded a good fit; both the comparative fit index (CFI) and the incremental fit index (IFI) obtained a value of 0.98. The participants were asked to indicate to what extent they agreed or disagreed with each one of the eight components of the index. The components were assessed on a seven-point scale, ranging from 1 = 'Strongly disagree' to 7 = 'Strongly agree'. The reliability of the measure used in this study was 0.77.

#### *Customers' satisfaction*

This measure assessed the extent to which the firm fulfilled the customers' need, in relation to its competitors (eg Collis and Montgomery, 1998). The respondents were asked to indicate the extent to which their customers were satisfied with the firm. This item was measured on a five-point scale (ranging from 1 = much less than the competitors, 2 = less than the competitors, 3 = as good as the competitors, 4 = better than the competitors, to 5 = much better than the competitors).

#### *Quality of the firm's products/services*

This measure assessed the extent of the quality of the firm's products and/or services relative to its competitors. This measure was on a five-point scale (ranging from 1 = much less than the competitors, 2 = less than the competitors, 3 = as good as the competitors, 4 = better than the competitors, to 5 = much better than the competitors).

### Data Analysis

To test the research model presented in Figure 1, a path analysis was performed using LISREL VIII (Joreskog and Sorbom, 1993). In order to assess the fit of the research model in Figure 1, the authors relied on multiple goodness-of-fit indices, since no single indicator has been demonstrated as superior in the structural equation modeling (SEM) (Medsker *et al.*, 1994). Following Bentler and Bonnet (1980), Joreskog and Sorbom (1993) and Kline (1998), the indices relied upon here included the $\chi^2$ statistic divided by the degree of freedom ($\chi^2$/df) (recommended to be less than three). Joreskog and Sorbom (1993) pointed out that even if all the assumptions underlying the use of the $\chi^2$ test hold, it might not be realistic to assume that the model holds exactly in the population. Thus, it is useful to also consider other, less sensitive, tests. These include the root mean squared error of approximation (RMSEA) (its value is recommended to be up to 0.05 and is acceptable up to 0.08), the relative fit index (RFI), the normed fit index (NFI) and the comparative fit index (CFI), which is recommended to be $>0.90$ and close to a value of 1.00. In addition, the parsimony normed fit index (PNFI) (James *et al.*, 1982) (the closer the value of the PNFI to 1.00, the more efficient the model) and the expected cross-validation index (ECVI) were used.

## RESULTS

### Descriptive Statistics

The means, standard deviations, reliabilities and the simple correlations among the research variables are presented in Table 1. Consistent with Fombrun and Shanley (1990) and Fryxell and Wang (1994), none of the partial correlation coefficients

**Table 1: Averages, Standard Deviations, Reliabilities and Correlations Among the Model Variables (reliabilities are in parentheses)**

| *Variables* | *Average* | *Standard deviation* | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* |
|---|---|---|---|---|---|---|---|---|---|---|
| Firm's growth | 3.30 | 0.96 | | | | | | | | |
| Accumulation of customers' orders | 3.33 | 0.83 | 0.583*** | | | | | | | |
| Market share | 3.38 | 0.90 | 0.534*** | 0.524*** | | | | | | |
| Profitability | 3.37 | 1.00 | 0.478*** | 0.320** | 0.430*** | (0.86) | | | | |
| Financial strength | 3.43 | 1.08 | 0.214* | 0.170 | 0.204 | 0.571*** | | | | |
| Organizational reputation | 3.52 | 0.59 | 0.535*** | 0.283** | 0.303** | 0.434*** | 0.308** | (0.77) | | |
| Customers' satisfaction | 3.72 | 0.63 | 0.181 | 0.086 | 0.319** | 0.234* | 0.180 | 0.255* | | |
| Firm's quality of products/services | 3.90 | 0.63 | 0.072 | 0.065 | 0.258* | 0.044 | 0.136 | 0.156 | 0.519*** | 1.00 |

Missing reliabilities in Table 1 are due to a one-item scale. *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$.

exceeded 0.60, suggesting that the multicollinearity among the research variables was probably not severe (Nunnaly, 1978).

### Path Analysis

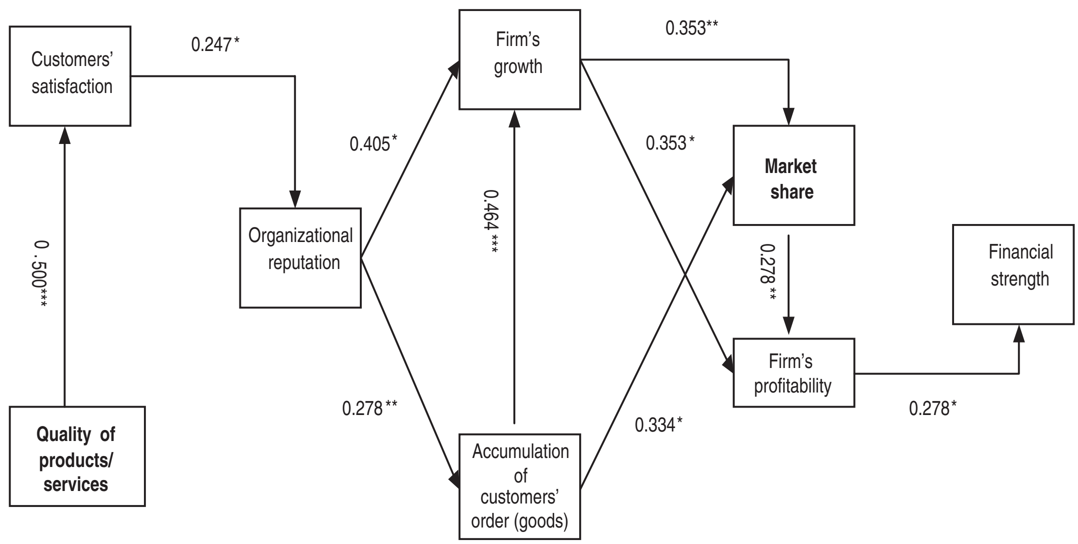
Table 2 shows the results of a path analysis among the model's variables and the relevant test statistics. The estimates highlight several interesting findings. The research model, depicted in Figure 1, was almost fully supported by the data (see Figure 2). Contrary to $H_1$a, no significant path was found between quality of products/services and organizational reputation. $H_2$h, which predicted that market share will be positively related to financial strength, was not supported either. Significant relationships were found among all the other proposed paths and all the other hypotheses of the model were supported by the data. The findings suggest that there is no direct relationship between the quality of products/services and organizational reputation. Rather, these two variables are connected (mediated) via the variable customers' satisfaction. The path between the variables quality of products/services and customers' satisfaction was significant (0.50), suggesting that positive customers' satisfaction is required to gain a favorable organizational reputation and customer satisfaction is obtained if the firm's quality of products/services is high.

Generally, the results in Table 2 show that a firm with high performance has a favorable organizational reputation. The relationship between organizational reputation and performance, however, is indirect. The estimates in Figure 2 and Table 2 point to significant paths between organizational reputation and the firm's growth (0.405) and between organizational reputation and the accumulation of customers' orders (0.278). There were also significant connections (paths) between the accumulation of customers' orders and the firm's growth (0.464) and between the accumulation of customers' orders and market share (0.334). As expected, the firm's growth was significantly connected to market share (0.353) and to the firm's profitability (0.318). Market share was connected with the firm's profitability (0.278), but did not directly influence financial strength (correlation of 0.084, see Table 2). Market share significantly affected the firm's profitability, which, in turn, affected financial strength (0.278).

**Table 2: Structural Coefficients for the Research Model**

| *Path coefficients* | *Research model* | Test statistics for the model | | |
|---|---|---|---|---|
| Quality of products/services → Customers' satisfaction | 0.500★★★ | | df | 16 |
| Quality of products/services → Organizational reputation | 0.053 | | $\chi^2$ | 17.919 |
| Customers' satisfaction → Organizational reputation | 0.247★ | | $\chi^2$/df | 1.120 |
| Organizational reputation → Firm's growth | 0.405★★★ | | RFI | 0.941 |
| Organizational reputation → Accumulation of customers' orders | 0.278★ | | NFI | 0.972 |
| Accumulation of customers' orders → Firm's growth | 0.464★★★ | | CFI | 1.00 |
| Firm's growth → Market share | 0.353★★ | | RMSEA | 0.00 |
| Firm's growth → Profitability | 0.318★★ | | ECVI | 0.338 |
| Accumulation of customers' orders → Market share | 0.334★★ | | ECVI saturated | 0.327 |
| Market share → Financial strength | –0.084 | | PNFI | 0.560 |
| Market share → Profitability | 0.278★ | | | |
| Profitability → Financial strength | 0.278★ | | | |

***Figure 2:*** *The estimates of the model*




## Model Assessment

The goodness-of-fit indices in Table 2 indicate that the proposed model was supported by the data ($\chi^2 = 17.919$). Moreover, $\chi^2/\mathrm{df} = 1.120$, which is much less than three, the critical value. Thus, this model was not rejected by the data. Several statistical tests suggest that the model structure cannot be rejected. The RFI, NFI and CFI were all above the critical value of 0.9 (0.941, 0.972 and 1.00, respectively), which supports the structure of this model. The value of RMSEA was 0.00 and the ECVI (0.338) and ECVI saturated (0.327) were very close to each other, all of which serve as indications of support for the structure of the model that is proposed here.

## DISCUSSION

### Implications

The goal of this study was to highlight the strategic role that perceived organizational reputation plays in creating superior performance among industrial enterprises. As pointed out by Petrick *et al.* (1999: 60), 'reputation, whether or not it is embodied in a trademark, should receive constant leadership attention'. Strategists and economists have devoted considerable efforts to detecting the strategic role of organizational reputation in creating SCA that, in turn, leads to superior performance. The logic behind attributing a strategic role to organizational reputation is the acknowledgment among academics and practitioners that having a good reputation is the outcome of a competitive process in which firms signal their key characteristics to their constituents and stakeholders in order to maximize their economic and non-economic position (Shrum and Wuthnow, 1988; Fombrun and Shanley, 1990). Much less attention has been devoted, however, to the interrelationship between reputation that is based on quality of products/service, reputation that is based on customers' satisfaction, overall organizational reputation and multivariate measures of performance. This study's major goal was to bridge this gap by presenting and empirically testing a conceptual model that ties up all of these relationships.

The findings of this study support the premise that organizational reputation has a strategic role in the firm's attempt to obtain a competitive edge in the market. The findings here suggest some interesting theoretical and managerial implications. It has long been proposed that quality of products/service-based reputation is associated with overall organizational reputation. This study's findings do not support this proposition. Rather, they suggest a mediated relationship between quality of products/services and organizational reputation, in which customers' satisfaction plays a significant mediating role. These findings suggest that high-quality products/services alone do not ensure a favorable organizational reputation. Many firms developed high-quality products that were rejected by potential customers soon after their introduction to the market. This fact does not imply that the high quality of products/services is not an important factor in creating a favorable organizational reputation. Rather, it suggests that this factor alone is not sufficient to guarantee organizational reputation. Only high quality products/services that meet customers' expectations and assure customers' satisfaction create a sufficient condition for a favorable organizational reputation. The case of Ford's Edsel is a good example of this situation. In the first half of the 1950s, Ford decided to develop a moderately priced car. Extensive market studies were conducted at that time to detect customers' preference for this type of car. The Edsel was introduced to the market in 1957 and soon became a major failure. The public expected a vehicle that provided a significant advancement toward something that had never been seen before. The Edsel had a new design and was a powerful vehicle, but it failed to meet customers' expectations and, hence, preferences (satisfaction).

This study's findings suggest that perceived organizational reputation influences the firm's performance. The results support the use of multivariate performance measures. Building a favorable organizational reputation is a lengthy and costly process and the returns on organizational reputation should be expected in the long term. Thus, the authors expect organizational reputation to have a direct effect on the firm's growth and accumulation of customers' orders. This finding is consistent with the results of Yoon *et al*. (1993), who suggest that the intention to buy an insurance program is a function of the insurance company's reputation. Top management should not expect a quick return on reputation. Rather, they need to acknowledge that building reputation as a strategic resource and positioning it as a sustainable competitive advantage is achieved, as in Southwest Airlines, by a large number of activities that complement and strengthen each other (Porter, 1996).

The return on reputation eventually will be gained by converting the firm's growth into larger market share and sustained profitability. Domination in the relevant market is extremely important in setting new rules and standards, as well as barriers to entry that enable firms to charge premiums. The domination of Microsoft in the market for PC operating systems is an important reason for its high profitability. Top management should not perceive their firm's growth as the ultimate and only goal. Rather, the firm's growth is one of two (market share is the other) mediator variables for gaining high profitability. Finally, these results show that sustained financial strength is a function of the firm's profitability and is not directly affected by market share. This finding suggests that top management should be aware that market share is by no means an assurance of financial strength. Market share serves only as an indicator of the firm's current profitability.

## Limitations of the Study and Suggestions for Future Research

Several limitations of this study should be mentioned. First, although the study relies on the growing body of literature about resource-based strategy and organizational reputation, the model presented here is new and the data must be cautiously interpreted. Secondly, the empirical model proposed here is a preliminary method that should be put to other tests. Thirdly, data from a particular set of industrial enterprises were used; further investigations should be conducted on other data sets and other types of organizations in order to extend the validity of this model. Fourthly, two variables (customer satisfaction and quality of products/services) are single-item scales and, thus, should be interpreted cautiously. Finally, the perceptions of the industrial enterprises' CEOs were examined. Clearly, using single-source data is a major limitation. This research design may yield response bias towards overestimating the prestige of an organization. Some secondary data, which were available to compare responses to performance measures such as growth and return on sales with the responses received, were used. This comparison, although for a very small number of firms, indicated that the CEOs' responses represented the secondary data quite well. A further examination yielded no relationship between CEOs' tenure in the organization and their perceptions of organizational reputation ($r = 0.06$, n.s.). This finding indicates that the mean level of reported perceived organizational reputation by leaders with little experience in their position was statistically equivalent to the reports of leaders who had longer experience in their position. If leaders' egocentric biases significantly influenced their reports of perceived organizational reputation, longer-tenured leaders would likely have reported, on average, higher levels of perceived organizational reputation than short-tenured leaders.[4] Finally, the results from Harman's one-factor test (Podsakoff *et al*., 2003; Podsakoff and Organ, 1986) suggest that one dominant factor did not emerge, because it accounts for only a relatively small part of the variance. Assuming that the vast majority of the firms are privately held, the authors believe that one direction for future research, which may overcome the possibility of response bias, is to investigate other stakeholders' perceptions. Clearly, this research strategy requires a lot of resources.

Future research should attempt to empirically validate the theoretical premise that organizational reputation plays a strategic role in creating a sustainable competitive advantage and superior performance with respect to multiple stakeholders. A recent interesting research path has explored the birth of capabilities (Helfat and Lieberman, 2002). Reputation research may follow this path in order to understand the process by which prestige emerges. Understanding this process has the potential to explain the role that strategic reputation plays in different situations. Researchers may need to use multivariate measures and multivariate analysis in order to uncover the interrelationships between organizational reputation and multiple performance measures. More should be done to explore the complex relationships between quality of products/services, customers' satisfaction and organizational reputation. The present study's results imply that firms may need to account for several types of reputation, including reputation based on the quality of products/services and reputation based on the customers' satisfaction.

## Acknowledgment

The authors wish to thank two anonymous reviewers for their helpful comments and suggestions on an earlier draft of this manuscript.

## Notes

1 Other studies attempted to assess the construed external image (Dutton *et al.*, 1994) and perceived/construed external prestige (eg Carmeli, 2005; Smidts *et al.*, 2001). The present study aims to explore the overall status or reputation of the firm through its CEO's evaluation, which is likely to reconcile how they view the firm and how others think of the firm.

2 The performance measures in this study are based on accounting data. These measures are commonly used for the evaluation of the firm's performance in organization studies (Barney, 1997: 36–43). The difficulties in obtaining data from private firms (most of the firms in this study are private firms) and the shortcomings of these data were previously discussed in Daily, 1995.

3 Respondents were asked to report how their firm's quality of services and/or products compares with their rivals. A similar item was also included, using a different question (the respondents were to indicate whether they agreed or disagreed that their firm features high quality of products and/or services), in the measure of the quality of the firm's products and/or services. The correlation between the two items was 0.37, suggesting that they were sufficiently different from each other.

4 The authors believe that the non-significant correlation between a CEO's tenure and perceived organizational reputation indicates that this study does not suffer from severe response bias. However, this correlation need not be an informative measure of this phenomenon. Thanks go to a referee for this point.

## References

Aaker, D.A. (1989) 'Managing assets and skills. The key to a sustainable competitive advantage', *California Management Review*, 31(2), 91–106.

Alsop, R. (1999) 'The best corporate reputations in America – Johnson & Johnson (Think Babies!) turns up tops', *Wall Street Journal*, September 23.

Ambrosini, V. and Bowman, C. (2001) 'Tacit knowledge. Some suggestions for operationalization', *Journal of Management Studies*, 38(6), 811–829.

Amit, R. and Schoemaker, P.J.H. (1993) 'Strategic assets and organizational rent', *Strategic Management Journal*, 14, 33–46.

Antunovich, P., Laster, D. and Mitnick, S. (2000) 'Are high-quality firms also high-quality investments?', *Current Issues in Economics and Finance*, 6(1), 1–6.

Barney, J.B. (1991) 'Firm resources and sustained competitive advantage', *Journal of Management*, 17(1), 99–120.

Barney, J.B. (1995) 'Looking inside competitive advantage', *Academy of Management Executive*, 9(4), 49–61.

Barney, J.B. (1997) *Gaining and Sustaining Competitive Advantage*. Addison-Wesley, Reading, MA.

Benjamin, B.A. and Podolny, J.M. (1999) 'Status, quality and social order in the California wine industry', *Administrative Science Quarterly,* 44(3), 563–589.

Bentler, P.M. and Bonnet, D.G. (1980) 'Significance tests and goodness of fit in the analysis of covariance structures', *Psychological Bulletin,* 88(3), 588–606.

Carmeli, A. (2005) 'The relationships between perceived external prestige, affective commitment and citizenship behaviors', *Organization Studies*, forthcoming.

Ching, C., Holsapple, C.W. and Whinston, A.B. (1992) 'Reputation, learning and coordination in distributed decision-making contexts', *Organization Science,* 3(2), 275–297.

Clark, B.H. and Montgomery, D.B. (1998) 'Deterrence, reputations and competitive cognition', *Management Science,* 44(1), 62–82.

Collis, D.J. and Montgomery, C.A. (1998) *Corporate Strategy. A Resource-Based View*, Irwin/McGraw-Hill, Boston, MA.

Daily, C.M. (1995) 'An empirical examination of the relationship between CEOs and directors', *Journal of Business Strategies,* 12(1), 50–68.

Deephouse, D.L. (2000) 'Media reputation as a strategic resource. An integration of mass communication and resource-based theories', *Journal of Management,* 26(6), 1091–1112.

Dierickx, I. and Cool, K. (1989) 'Asset stock accumulation and sustainability of competitive advantage', *Management Science*, 35(12), 1504–1511.

Dollinger, M., Golden, P. and Saxton, T. (1997) 'The effects of reputation on the decision to joint venture', *Strategic Management Journal,* 18(2), 127–140.

Dowling, G.R. (1988) 'Measuring corporate images. A review of alternative approaches', *Journal of Business Research*, 17(1), 27–34.

Dutton, J.E., Dukerich, J.M. and Harquail, C.V. (1994) 'Organizational images and member identification', *Administrative Science Quarterly*, 39(2), 239–263.

Dvir, D., Lipovetsky, S., Shenhar, A. and Tishler, A. (1998) 'In search of project classification, a non-universal approach to project success factors', *Research Policy*, 27(9), 915–935.

Elsbach, K.D. and Glynn, M.A. (1996) 'Believing your own "PR", embedding identification in strategic reputation', *Advances in Strategic Management*, 13, 65–90.

Fombrun, C.J. (1996) *Reputation, Realizing Value from the Corporate Image*, Harvard Business School Press, Boston, MA.

Fombrun, C.J. and Shanley, M. (1990) 'What's in a name? Reputation building and corporate strategy', *Academy of Management Journal,* 33(2), 233–258.

Fryxell, G.E. and Wang, J. (1994) 'The *Fortune* corporate "reputation" index, Reputation for what?', *Journal of Management,* 20(1), 1–14.

Garud, R. and Lampel, J. (1997) 'Product announcements and corporate reputations', *Corporate Reputation Review,* 1(1), 114–118.

Gatewood, R.D., Gowan, M.A. and Lautenschlager, G.L. (1993) 'Corporate image, recruitment image and initial job choice decisions', *Academy of Management Journal,* 36(2), 414–427.

Ghemawat, P. and Pisano, G.P. (2000) 'Building and sustaining success', in Ghemawat, P. with Collis, D.J., Pisano, G.P. and Rivkin, J.W. (eds) *Strategy and the Business Landscape, Core Concepts,* Prentice Hall, Upper Saddle River, NJ, 111–134.

Grant, R.M. (1991) 'The resource-based theory of competitive advantage. Implications for strategy formulation', *California Management Review*, 33(3), 114–135.

Hall, R. (1992) 'The strategic analysis of intangible resources', *Strategic Management Journal*, 13(2), 135–144.

Hall, R. (1993) 'A framework linking intangible resources and capabilities to sustainable competitive advantage', *Strategic Management Journal*, 14(8), 607–618.

Hammond, S.A. and Slocum Jr., J.W. (1996) 'The impact of prior firm financial performance on subsequent corporate reputation', *Journal of Business Ethics,* 15, Summer, 159–165.

Helfat, C.E. and Lieberman, M.B. (2002) 'The birth of capabilities, market entry and the importance of pre-history', *Industrial and Corporate Change*, 11(4), 725–760.

Itami, H. and Roehl, T.W. (1987) *Mobilizing Invisible Assets*, Harvard University Press, Cambridge, MA.

James, L.R., Mulaik, S.A. and Brett, J.M. (1982) *Causal Analysis, Assumptions, Models and Data*, Sage, Beverly Hills, CA.

Jones, O. (1996) 'Human resources, scientists and internal reputation. The role of climate and job satisfaction', *Human Relations,* 49(3), 269–294.

Joreskog, K.G. and Sorbom, D. (1993) *LISREL 8, Structural Equation Modeling with the SIMPLIS Command Language*, Scientific International Software, Chicago, IL.

Kibbutz Industry Association (KIA) (1999) *Enterprises' List, KIA*, Kibbutz Industry Association, Tel-Aviv, Israel, May.

Kibbutz Industry Association (KIA) (2001) www.kia.co.il/fabout.htm (accessed March 16, 2001).

Kline, R.B. (1998) *Principles and Practice of Structural Equation Modeling*, The Guilford Press, New York, NY.
Lakonishok, J., Shleifer, A. and Vishny, R.W. (1994) 'Contrarian investment, extrapolation and risk', *Journal of Finance*, 49(5), 1541–1578.
Leonard-Barton, D. (1992) 'Core capabilities and core rigidities. A paradox in managing new product development', *Strategic Management Journal*, 13(5), 111–125.
Lipovetsky, S., Tishler, A., Dvir, D. and Shenhar, A. (1997) 'The relative importance of project success dimensions', *R&D Management,* 27(2), 97–106.
McGuire, J., Sundgren, A. and Schneeweiss, T. (1988) 'Corporate social responsibility and firm financial performance', *Academy of Management Journal,* 31(4), 854–872.
McMillan, S.G. and Joshi, M.P. (1997) 'Sustainable competitive advantage and firm performance. The role of intangible resources', *Corporate Reputation Review*, 1, Summer/Fall, 81–85.
Medsker, G.J., Williams, L.J. and Holahan, P.J. (1994) 'A review of current practices for evaluating causal models in organizational behavior and human resources management research', *Journal of Management*, 20(2), 239–264.
Nunnaly, J.C. (1978) *Psychometric Theory*, 2nd edn, McGraw-Hill, New York, NY.
Olins, W. (1990) *Corporate Identity, Making Business Strategy Visible through Design*, Harvard Business School Press, Boston, MA.
Penrose, E.T. (1959) *The Theory of the Growth of the Firm*, Blackwell, Oxford, UK.
Peteraf, M.A. (1993) 'The cornerstones of competitive advantage. A resource-based view', *Strategic Management Journal*, 14(3), 179–191.
Petrick, J.A., Scherer, R.F., Brodzinski, J.D., Quinn, J.F. and Ainina, M.F. (1999) 'Global leadership skills and reputational capital. Intangible resources for sustainable competitive advantage', *Academy of Management Executive,* 13(1), 58–69.
Podolny, J.M. (1993) 'A status-based model of market competition', *American Journal of Sociology*, 98(4), 829–872.
Podolny, J.M. and Feldman, A. (1997) 'Is it better to have status or to know what you are doing? An examination of position capability in venture capital markets', *Research Paper No. 1455*, Graduate School of Business, Stanford University, CA.
Podsakoff, P.M. and Organ, D.W. (1986) 'Self-reports in organizational research. Problems and prospects', *Journal of Management*, 12(4), 521–544.
Podsakoff, P.M., MacKenzie, S.B., Lee, J.-Y. and Podsakoff, N.P. (2003) 'Common method biases in behavioral research, a critical review of the literature and recommended remedies', *Journal of Applied Psychology*, 88(5), 879–903.
Porter, M.E. (1996) 'What is strategy?', *Harvard Business Review*, November–December, 61–78.
Prahalad, C.K. and Hamel, G. (1990) 'The core competence of the corporation', *Harvard Business Review*, May–June, 79–91.
Pruzman, J. (2001) 'Israel's single-minded firewall builder', *Financial Times* (FT.com site, March 29).
Reed, R. and DeFillippi, R.J. (1990) 'Causal ambiguity, barriers to imitation and sustainable competitive advantage', *Academy of Management Review*, 15(1), 88–102.
Roberts, P.W. and Dowling, G.R. (1997) 'The value of a firm's corporate reputation. How reputation helps attain and sustain superior profitability', *Corporate Reputation Review*, 1, Summer/Fall, 72–76.
Rumelt, R.P. (1984) 'Towards a strategic theory of the firm', in Lamb, R.B. (ed.) *Competitive Strategic Management,* Prentice Hall, Englewood Cliffs, NJ, 556–570.
Russo, M.V. and Fouts, P.A. (1997) 'A resource-based perspective on corporate environmental performance and profitability', *Academy of Management Journal*, 40(3), 534–559.
Segev, E. (1987) 'Strategy, strategy making and performance — An empirical investigation', *Management Science*, 22(2), 258–269.
Shapiro, C. (1983) 'Premiums for high quality products as returns to reputations', *Quarterly Journal of Economics,* XCVIII(4), 659–679.
Shrum, W. and Wuthnow, R. (1988) 'Reputational status of organizations in technical systems', *American Journal of Sociology,* 93(4), 882–912.
Smidts, A., Pruyn, A.T.H. and Van Riel, C.B.M. (2001) 'The impact of employee communication and perceived external prestige on organizational identification', *Academy of Management Journal*, 44(5), 1051–1062.
Smith, S. (1990) 'America's most admired corporations', *Fortune*, January 1, 30–46.
Srivastava, R.K., McLish, T.H., Wood, R.A. and Capraro, A.J. (1997) 'The value of corporate reputation. Evidence from the equity markets', *Corporate Reputation Review*, 1, Summer/Fall, 62–68.
Stuart, T.E., Hoang, H. and Hybels, R.C. (1999) 'Interorganizational endorsements and the performance of entrepreneurial ventures', *Administrative Science Quarterly*, 44(2), 315–349.
Teece, D.J., Pisano, G. and Shuen, A. (1997) 'Dynamic capabilities and strategic management', *Strategic Management Journal,* 18(7), 509–533.
Vergin, R.C. and Qoronfleh, M.W. (1998) 'Corpo-

rate reputation and the stock market', *Business Horizons,* 41(1), 19–26.
Wartick, S.L. (1992) 'The relationship between intense media exposure and change in corporate reputation', *Business & Society,* Spring, 31(1), 33–49.
Weigelt, K. and Camerer, C. (1988) 'Reputation and corporate strategy. A review of recent theory and applications', *Strategic Management Journal*, 9(5), 443–454.
Wernerfelt, B. (1984) 'The resource-based view of the firm', *Strategic Management Journal*, 5(2), 171–180.
Wood, D.J. (1995) 'Introduction. The *Fortune* database as CSP measure', *Business & Society*, 34(2), 197.
Yoon, E., Guffey, H.J. and Kijewski, V. (1993) 'The effects of information and company reputation on intentions to buy a business service', *Journal of Business Research,* 27(3), 215–228.

## APPENDIX A: MEASUREMENT ITEMS OF THE RESEARCH VARIABLES

### Perceived organizational reputation

1 Our firm possesses a very favorable reputation for its quality of management.
2 Our firm possesses a very favorable reputation for its quality of products/services.
3 Our firm possesses a very poor reputation for not being innovative [reverse-scored item].
4 Our firm possesses a very favorable reputation for its long-term investment value.
5 Our firm possesses a very poor reputation for lacking financial soundness [reverse-scored item].
6 Our firm possesses a very favorable reputation for its ability to attract, develop and keep talented people.
7 Our firm possesses a very favorable reputation for its community and environmental responsibility.
8 Our firm possesses a very favorable reputation for its optimal use of its assets.

### Customers' satisfaction

9 To what extent the company's customers are satisfied with the company.

### Quality of the company's products/services

10 How would you assess the company's products and/or services' quality relative to the key competitors?

### Firm performance

11 Change in the firm's annual growth
12 Net income
13 Return on equity
14 Change in market share
15 Change in accumulation of customers' orders.