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REPUTATION GAPS AND THE PERFORMANCE OF SERVICE ORGANIZATIONS

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Links between the reputation of organizations and their financial performance are intuitively attractive to assume, but often difficult to demonstrate convincingly. Gaps between employee and customer perceptions of corporate reputation have traditionally been associated with poor performance. In the context of service business and applying assimilation-contrast theory, we hypothesize that the nature of such gaps will, in reality, have a differential effect on future revenue depending on the size and valence of the gap. The effects of small gaps should be assimilated by customers, but larger ones have a greater potential of creating a contrast effect resulting in significant increases or decreases in subsequent sales. In businesses where employees have a more positive view of the company reputation than customers, we hypothesize a growth in future sales, and where they have a relatively more negative view, a decline. We test the effects of what we label as reputation gaps in 56 business units drawn from nine service organizations and confirm our hypotheses. Among the implications of our findings are that managing reputation by elevating employee perceptions of a company's reputation above those perceived by its customers holds the potential to enhance future sales.

INTRODUCTION

The contribution corporate reputation can make to market performance in a service organization will be greater than for other types of business. Shoppers, for example, may not know that Dove soap and Hellmann's mayonnaise are made by Unilever or that Procter and Gamble own Pampers and Olay. On the other hand, most service organizations will depend upon the associations stakeholders make with their corporate names. Managers and academics intuitively believe that whether or not a company is seen as reputable will affect its market performance, and studies demonstrate the wide-ranging benefits from having a good reputation. More reputable firms can charge a premium, which will in turn attract investors (Fombrun and Shanley, 1990). A positive reputation will attract employees and promote lower employee turnover (Markham, 1972), improve customer attitudes (Brown, 1995; Yoon, Guffey, and Kijewski, 1993), lower a client's perceived risk (Ewing, Caruana, and Loy, 1999), increase the propensity to joint venture (Dollinger, Golden and Saxton, 1997) and create higher credibility (Herbig, Milewicz and Golden, 1994).

Reputation is then a potential source of competitive advantage, but there are two barriers to its application as a strategic framework. First, the management of reputation is often a part of the corporate communications function, a role that has evolved from public relations/affairs. With a focus on more immediate and tactical issues and the

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media, the role can lack a rounded and strategic orientation. Secondly, and our main concern here, while the significance of reputation implies that its management should be seen as a strategic issue, the links between how reputation is managed and future financial performance are not always clear.

One convincing link between reputation and performance is that sudden damage to reputation can adversely affect performance (Mitroff, 1988; Shrivastava and Mitroff, 1987). For example, the BSE (Bovine Spongiform Encephalopathy or 'mad cow disease') crisis that began in the 1980s impacted beef sales in countries affected by the disease and even in those that were not (Smith, Young, and Gibson, 1999). The collapse of Arthur Andersen was caused by a loss of reputation following allegations surrounding its involvement in the Enron scandal. Such examples, while headline grabbing, do not represent the norm in reputation management, which is concerned with the gradual improvement of this key intangible asset (Fombrun, Gardberg, and Sever, 2000) but where, we argue, there is currently less compelling evidence of a causal link between reputation and financial performance.

Fortune's annual America's Most Admired Companies (AMAC) survey has often been a key data source for researchers seeking to demonstrate a positive association between reputation and financial performance (Welsh, 1994). The senior business executives and analysts, who are the respondents to the survey, rate firms on eight criteria, including three that are financial. A high *Fortune* score correlates with superior financial returns (Vergin and Qoronfleh, 1998; Roberts and Dowling, 2002). However, since perception of financial performance is a major input to the *Fortune* rankings, the measure is heavily influenced by a financial halo (Brown and Perry, 1994) leading to concern about the practical value to managers of such ratings (Fryxell and Wang, 1994). The financial halo can be removed but the *Fortune* rankings do not necessarily reflect what is happening in the market because the survey methodology does not consider the views of customers. The reputations of companies certainly correlate with their financial performance in the eyes of business people but it is more likely that financial performance causes such views, rather than *vice versa*. What is needed is an alternative method to assess the linkages between corporate reputation and financial performance; one that focuses on interactions in the marketplace.

Our purpose is to explore these linkages in the services sector at their core, by examining the interaction of customer and employee views of reputation, and thus help to clarify how reputation may be used as a strategic tool. We aim to build upon earlier thinking that the differences between these two perceptions explain how reputation influences performance.

OVERVIEW OF THE STUDY

Conceptual framework

Corporate reputation is normally defined as the perceptions and feelings about an organization held by its multiple stakeholders (Fombrun, 1996). It represents the accumulated impression that stakeholders form of the firm, resulting from their interactions with, and any communications they receive about, that organization (Bernstein, 1984; Fombrun and Shanley, 1990). It defines stakeholders' expectations of an organization's future actions based upon that same prior experience and perception (Weigelt and Camerer, 1988). Reputation also shapes the future behavior of both customers and employees toward the firm (Brown and Dacin, 1997). For example, we will deal with a business that has gained our trust with a greater propensity to accept what they say. Consequently, a reputation for being trustworthy can reduce transaction costs (Dunn and Schweitzer, 2005), create greater loyalty among customers (Sirdeshmukh, Singh, and Sabol, 2002) and result in greater commitment among employees (Dirks and Ferrin, 2002).

Reputation as perceived by the customers of a service business will be heavily influenced by the experiences they have with the organization and particularly by the interactions they have with its employees (Lloyd, 1990: 182). In a sense, the employees of the service are the face of the company and the employees' perception of the firm can be instrumental in defining the view the customer is given (Kennedy, 1977). For example, if the service business is seen internally as authoritarian, this will influence the way customer-facing employees deal with customers, who will also come to see the organization in the same way. Employee and customer views of reputation are

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consequently seen as interrelated (Gioia, Schultz, and Corley, 2000).

Here we are interested in investigating the effects of the reputation gap defined as the difference between internal reputation—specifically how customer-facing employees perceive their company—and external reputation—specifically how customers perceive the company. Our conceptualization of internal reputation is similar to that of organizational identity, which generally refers to the shared perceptions an organizations' members hold, in particular those central, distinctive and enduring qualities that guide behavior (Albert and Whetten, 1985). Where our conceptualization differs (and is closer to the view of organizational identity of Gioia and Thomas, 1996) is that we hold that *both* the employee and customer views of corporate reputation are variable (rather than enduring) and therefore malleable in the pursuit of stronger commercial performance.

Alignment between internal and external reputation

The approach to conceptualizing the link between reputation and performance that we aim to build upon is the advantage claimed from aligning the internal and external views of corporate reputation (Hatch and Schultz, 2001). The arguments for alignment go beyond the cost-benefits of communicating similar messages to internal and external stakeholders, to the idea that how external stakeholders see the firm is linked to the views held internally, and that gaps between the two are potentially damaging to an organization. The concept of alignment is similar to that of strategic fit, as both are concerned with a matching of the internal capabilities of the organization to what the market requires and expects (Venkatraman and Prescott, 1990). Reputation gaps, it is claimed, should be closed to achieve 'congruence' between internal and external views (Samli, Kelly, and Hunt, 1998) so as to make the two views the same. Hatch and Schultz (2001) offer the alignment of external and internal aspects of corporate reputation as a way to build a successful corporate reputation.

Gaps can be created by a firm that tries to promote a favorable reputation in the marketplace through its advertising, rather than to communicate the reality that exists inside the company (Foley, 2001). For example, a company will create a gap between the expectations and experiences of customers if it claims in its external communication to be reliable but behaves inconsistently. Large gaps are seen as particularly problematic and are associated with reputation crises (Dowling, 1994: 92). Indeed, a crisis can be caused by the internal values of an organization differing substantially from the public's expectations, such as in Shell's handling of the Brent Spar incident when it consciously ignored public attitudes toward the environment in deciding how to dispose of a redundant oil platform. Such differences can lead to conflicts resulting in, as in this example, demonstrations, boycotts, and considerable negative publicity. Internal and external stakeholders will, it is claimed, seek consistency in the identity of an organization (Brickson, 2005) and marked differences highlighted by such media attention will influence the behavior of customers.

Our contribution

While there is considerable anecdotal evidence for the advantage gained from the elimination of reputation gaps, we believe that there are a number of issues with our existing understanding of these influences and the conceptualization of alignment that need to be addressed. First, the reputation gap has been seen as generally negative, bad for financial performance and therefore something that should be minimized or eliminated; but we will show that under certain conditions this is not the case. Second, the existing literature does not discuss the valence of the gap and, therefore, does not distinguish between what we will label as 'positive' and 'negative' reputation gaps. If employee views of a company's reputation are superior to those of customers (a positive gap), would the effects not be different compared with when the reverse is the case (a negative gap)? Finally, the existing literature does not discuss the size of the gap. Should all gaps be closed irrespective of size, or are bigger gaps proportionally more important to a company? Next we discuss how assimilation-contrast theory provides a framework to create hypotheses about the nature of reputation gaps and consequent financial performance. Then we present the results from studies of 56 business units drawn from nine service organizations to test our hypotheses. Finally we draw conclusions from our work that concern the management of reputation.

THEORY AND HYPOTHESES

Assimilation and contrast effects between internal and external reputation

Sherif and Hovland (1961) proposed that attitudes can be thought of as having an internal reference scale. The initial attitude on an issue acts as a reference point. Their assimilation-contrast theory posits two possibilities when information representing a different view on the issue is received, such as when an entity's performance differs from expectations. If this new information implies a picture that differs little from the reference point, the perception of the entity is moved toward that reference point (the new information is assimilated even if it is not totally compatible). However if the new information presents a large discrepancy from the reference point, the difference tends to be magnified and individuals will contrast away from their original reference point.

Assimilation-contrast theory, as the name implies, combines two theories. For example, if a store does not live up to what customers expect, they may distort their perceptions of the store to be consistent with their pretrial expectations (Meyers-Levy and Sternthal, 1993) in line with the theory of assimilation. Contrast theory, on the other hand, postulates that customers magnify the difference between their pretrial expectations and the entity's actual performance, such that higher (lower) expectations lead to lower (higher) post-trial performance perceptions than if one had no expectations at all (Meyers-Levy and Sternthal 1993; Sherif and Hovland, 1961). Assimilation-contrast theory argues that the size of the difference between the reference point and the entity's performance determines which effect ensues (Mussweiler, 2001). Small differences will have little or no effect on consequent attitude and behavior, while large differences may produce a dramatic change in both.

Assimilation-contrast effects have been widely documented in the social science and business literatures in different contexts: linked to assessments of the self (Strack, Schwarz, and Gschneidinger, 1985), to objects (Anderson, 1973; Brown and Dacin, 1997; Olshavsky and Miller, 1972; Meyers-Levy and Sternthal, 1993) to groups (Doosje *et al.*, 1998; Wilder and Thompson, 1988), and to organizations (Bolton, 1998; Van den Bos, 2002). In the present study, we are suggesting that the relevant reference point is the view of the reputation that customers have of a service business, which defines their expectations of that business. When engaging or reengaging with the service organization, the customer encounters employees whose attitudes and behavior, as we argued earlier, are shaped by their own perception of their company's reputation. The employees' attitudes, tone of voice, body language, and overall service delivery are either consistent or inconsistent with the customer's reference point. The new information from the service encounter is processed by customers and, if it is compatible with their view of the company's reputation and thus how it should behave, the new information does not change that view and is assimilated into the original reference point. The view of reputation is unchanged and so will be the customers' future behavior toward the firm. However if the encounter represents information that is seen as substantially different from their original view of the company reputation, the new information acts as the basis for a reevaluation of that reference point, which yields the contrast effect (Sherif, Taub, and Hovland, 1958; Sherif and Hovland, 1961). The subsequent change in the customers' attitude, in this case their view of the company reputation, can be expected to be substantial and marked, implying that their future behavior toward the firm will also change markedly, influencing the financial performance of the firm either positively or negatively.

The consequences from a perspective anchored in assimilation-contrast theory are that if customers with a high and positive level of affect toward a company interact with employees with a negative level of affect, the outcome is likely to be damaging to a service business. If the two views are similar we would expect little change, but if customers interact with employees with a higher level of affect than their own, a positive outcome is likely. Customers will sense, as previous research and our own interviews illustrate, whether staff views of the company are compatible with their own. Employee views are often all too obvious and, as previous work has argued, the affect they create can transfer to customers.

The transfer of affect

Service workers' identification (or disidentification) with their organization will influence their attitude toward customers, which in turn improves

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(or damages) customer perception of the company and their purchasing behaviors, leading to greater (or lower) sales (Peccei and Rosenthal, 1997; Bolton, 1998; Wieseke *et al*., 2007). The transfer of affect has been evocatively labeled as 'emotional contagion' (Hatfield, Cacioppo, and Rapson, 1994) and there is considerable empirical evidence for the transfer of negative affect from employees to customers. If their experience at their workplace is negative, staff may retaliate against their employer by giving poor service to customers (Stein, 2007). Employees can discourage customers from buying the company's products or even recommend a competitor's products. Disaffection created by an organizational climate of aggression and coercion can result in the loss of both customers and sales (Andersson and Pearson, 1999). Even when management imposes rules on employees to, for example, display cheerful and friendly attitudes as they interact with customers, this does not dictate the emotions that employees are actually seen to express (Hatfield *et al*., 1994; Pugh, 2001). Whether or not an employee is seen as warm and friendly by customers during a service encounter is not influenced by the degree to which employees attempt to fake or modify their emotions during their interaction with customers (Gosserand and Diefendorff, 2005). Dissatisfied employees may frown and groan during customer transactions (Sutton and Rafaeli, 1988). The truth, as they say, will win out during many service encounters, but will a poor customer experience (seen in absolute terms) inevitably result in loss of future sales?

The implication from research into the manifestation of negative affect among employees is that negative employee attitudes will (inevitably) damage future sales. We would argue from the perspective of assimilation-contrast theory that this outcome can be expected only when the customers' expectation, governed by the reference point they hold of the company reputation, is incompatible with any new insight gained from their more recent experiences. Discount airline Ryanair succeeds, despite a reputation for poor customer service, because customers have learned not to expect more than low prices (Ruddock, 2007). A low expectation can also result in a positive effect. Brown and Dacin (1997) found evidence of positive contrast effects in the evaluation of a product made by a company where the expectation of the company's abilities was low. When subjects had lower expectations about the company's ability, their evaluations of the products made by the company were higher. Surprisingly, there is less empirical evidence of the influence of positive attitudes among service employees creating a positive effect among customers, although many argue that improving internal service quality leads to increased revenue growth by first generating greater employee satisfaction (e.g., Heskett *et al*., 1994).

Reputation gaps and future sales

We can expect three different outcomes, depending on the size and direction of the reputation gap, when employees and customers interact in a service environment. When customers with certain perceptions and feelings about the service organization they use interact with employees with similar preconceptions, the customers' views of the company reputation will remain the same because any small differences are assimilated (Sherif and Hovland, 1961). However, when customers interact with employees who hold more positive perceptions and feelings about the firm (positive gaps) we hypothesize that customers will use the insights from that interaction to adjust their reference point, a contrast effect due to the transfer of positive affect (Hatfield *et al*., 1994). The reputation of the company in their minds changes for the better, and so will their behavior toward the company, purchasing more and more often, and recommending the firm to others. We would expect a significant increase in the future sales of the service provider when employees hold a more positive view of the company reputation compared with those of customers. The converse condition is equally plausible. If employees hold a view of their company's reputation, one below that held by customers (negative gaps), their interactions will result in the customers' revising their reference point sharply downward, influenced by any negative effect due to the emotions displayed by employees (Andersson and Pearson, 1999). Customers will buy less or defect and influence others by spreading negative word of mouth.

Hence, we are proposing three hypotheses regarding the outstanding issues in the existing literature about the effects of reputation gaps, focusing on their size and their valence. Existing thinking holds that any gaps between the views of reputation held by customers and employees have a negative influence on business performance (Samli, Kelly, and Hunt, 1998; Hatch and Schultz, 2001). The shape of the relationship implied between future sales and the reputation gap is an inverted V, with performance falling away as the gap widens in either direction. However, the application of assimilation-contrast theory suggests that the employee view will influence the customer view in certain circumstances, and that it is then the gap between the two that fundamentally determines future sales. The expected overall relationship between reputation and future sales implied is:

Hypothesis 1: Future sales growth is positively related to the reputation gap.

While Hypothesis 1 argues the expected overall relationship between the reputation gap and performance, our theory also implies two more detailed hypotheses as to the form of that relationship. When employee and customer views of reputation are similar or the same, those small differences will be assimilated (Sherif and Hovland, 1961) and there should be no subsequent influence on sales. This compares markedly with the consequences of congruence, where small differences are the desired aim (Hatch and Schultz, 2001). To further test the competing views, we defined three zones: one where employee and customer views are aligned (little or no reputation gap) and where we hypothesise little or no change in subsequent sales, one where customer views are substantially higher than those of employees (negative reputation gap) where we would expect significant sales decrease, and one where employee views substantially exceed those of customers (positive reputation gap) and where we would expect substantial sales growth. Put formally:

Hypothesis 2a: When employee perceptions of reputation exceed those of customers (a positive gap), ensuing company performance is much more favorable than when employee perceptions are similar to those of customers (future sales growth).

Hypothesis 2b: When employee perceptions fall below those of customers (a negative gap), ensuing company performance is far less favorable than when employee perceptions are similar to those of customers (future sales decline).

Finally, contrast theory implies that if customers do change their reference point as a consequence of the new information due to their recent interaction with employees, they will magnify the differences they perceive (Sherif and Hovland, 1961). Thus, in our two zones where we would expect contrast to take place, we would also expect an increasingly stronger impact from the reputation gap. Assimilation-contrast theory implies a curvilinear shape to the relationship between outcome and discrepancy from the reference point (Wricke, Herrmann, and Huber, 2000) and we reflect this thinking in a model linking sales level and reputation gap, (see Figure 1), which summarizes our final hypothesis:

Hypothesis 3: The overall relationship between the gap between employee perceptions and those of customers is curvilinearly related to sales. That is,

a) When employee perceptions significantly exceed those of customers (positive gap), within a limit, sales should rise at an increasing rate.
b) When employee perceptions significantly fall below those of customers (negative gap), within a limit, sales should fall at an increasing rate.
c) When employee perceptions align with those of customers, future sales should not be influenced.

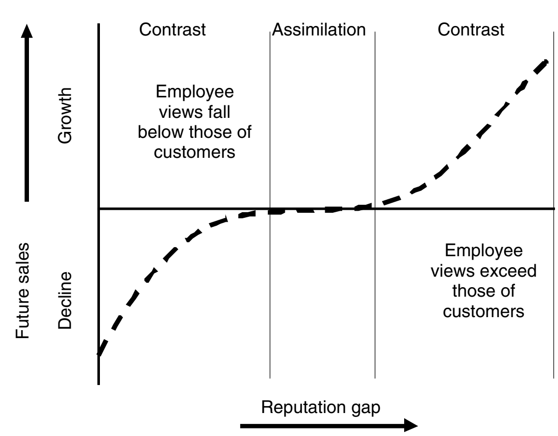

Figure 1. Schematic summary of conceptual framework

Table 1. Sample

Company	Business units	Customer sample	Employee sample
Construction A	5	131	155
Construction B	8	125	129
Department store	1	129	147
Textile retailer	9	399	63
Clothing retailer	6	281	219
Business school	1	303	105
Ladies-wear retailer	10	431	69
Financial services	8	391	151
Food retailer	8	385	694
Total	56	2575	1732

If our predictions hold, we offer the tantalizing proposition that it is managing employee perceptions of the firm, and not necessarily those of customers, which ultimately controls whether sales will increase into the future.

RESEARCH METHODOLOGY

Sample of firms and industries

We studied nine service organizations by undertaking 4,307 interviews divided between employees and customers. For seven of these organizations, we obtained data at the business unit level (branches or regions of the same organization) and, in total, we obtained data from 56 business units. We excluded any organizations where the business unit names were different from the corporate name and selected only customer-facing employees and actual customers as our interview sample bases since the focus of this paper is on the service experience between employee and customer. We assessed performance using future revenue growth as future purchases would appear to be influenced by reputation gaps. The type of service organizations we investigated and our sample sizes are given in Table 1.

Each organization agreed to participate under a guarantee of anonymity. The sample includes businesses from a number of service sectors including: retailers, financial services, not for profit, and construction. The construction companies were both in business-to-business (B2B) markets and the rest traded predominantly in business–to-consumer (B2C) markets. Interviews in most instances took place on company premises. Apart from the customers of the two construction companies, who were interviewed by telephone or mail, customers were interviewed face-to-face using a structured questionnaire as they entered the service outlet. Employees were interviewed in person at work, or in some cases were given a questionnaire to complete and return by an agreed upon time. Response rates were high and generally above 80 percent.

In addition to the quantitative surveys, we undertook extended interviews with customers after their service experience, with staff, and later, after we had analyzed the survey data, with managers.

Measures

Internal and external reputation

Reputation can be measured in a number of ways from single item scales (Goldberg and Hartwick, 1990) to more complex and potentially more useful measures (e.g. Dukerich, Golden, and Shortell, 2002). The researcher can create a scale specific to the context, or adopt a generic scale where dimensions have been derived from theory and measurement items developed from prior and independent empirical research. One advantage of a generic scale is that it is equally valid in all contexts and assesses common aspects of a construct. Measures of reputation can also be cognitive or affective (Bolger, 1959). In the first type of scale, respondents may be asked to assess an organization as good or bad in its various roles in society, for example, as an employer. In the second type of scale, respondents' feelings about a company are assessed as favorable or unfavorable (Darden and Babin, 1994). Affective measures capture the imagery that stakeholders associate with organizations using items such as 'concerned, aggressive, supportive, competitive, and careful,' items that generally reflect human characteristics (O'Reilly,

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Table 2. The Corporate Character Scale

Agreeableness	Enterprise	Competence	Chic	Ruthlessness
Cheerful	Cool	Reliable	Charming	Arrogant
Pleasant	Trendy	Secure	Stylish	Aggressive
Open	Young	Hardworking	Elegant	Selfish
Straightforward	Imaginative	Ambitious	Prestigious	Inward looking
Concerned	Up to date	Achievement-oriented	Exclusive	Authoritarian
Reassuring	Exciting	Leading	Refined	Controlling
Supportive	Innovative	Technical	Snobby	
Agreeable	Extravert	Corporate	Elitist	
Honest	Daring			
Sincere				
Trustworthy				
Socially responsible				

Source: Davies *et al*., (2003).

Chatman, and Caldwell, 1991; Xenikou and Furnham, 1996). People naturally anthropomorphize an organization (Ashforth and Mael, 1996) when describing it, and use such traits as indicators of their expectations of its behavior toward them and of their own future behavior toward the firm. The approach is, therefore, compatible with how reputation is defined. Consequently the personification metaphor (organization as person) has often been used to construct a validated measurement scale for reputation. One such generic measure, labeled the Corporate Character Scale, has been validated for both customers and employees (Davies *et al*., 2003), and is therefore appropriate for measuring any gaps between internal and external views of reputation. As a measure of affect, it is also compatible with our theory as to how reputation is transferred from employees to customers. It is essentially an inventory of traits that are used to distinguish between organizations and define how a respondent believes an organization will behave (e.g., competent, trustworthy, elitist, selfish, or aggressive: see Table 2).

In responding to the instrument, customers or employees are asked to imagine that the target organization 'has come to life' as a human being and to assess its personality. Each of the items in Table 2 is measured on a five-point Likert-type scale, labeled from strongly disagree to strongly agree.

The reputation gap

The gap between customer and employee views of corporate reputation was calculated by summing the scores for each scale item to create an overall measure for both customers and employees for each business unit and then subtracting the total average employee score from the total average customer score. Scores for the 'ruthlessness' items were reverse scored to reflect the negative valence of this dimension. The scale was used in effect to provide an index of reputation from the employees and customers of each organization. It proved a reliable measure with a Cronbach alpha for customers of 0.83 and for employees of 0.86, above the recommended threshold (Nunnally, 1978).

Performance outcome

Year-on-year percentage sales growth was the natural choice of performance measure as our hypotheses concern the prediction of whether customers would buy more or less into the future. The measure is also comparable and relevant across our sample of businesses and is widely used as a dependent measure in the strategy literature (e.g., Mishina, Pollock, and Porac, 2004; Nobeoka and Cusumano, 1997; Peng, 2004). We obtained annual sales revenue at the time when the survey was conducted and for a point in time one year later to create the dependent variable of a percentage change in sales.

Control variables

Three control variables were considered. As smaller firms may have greater potential to grow, we included a measure of firm size. We chose employee numbers as a measure relevant to all

Table 3. Sample descriptive statistics and correlations (N = 56)

		Mean	Std. dev	Min.	Max.	1	2	3	4
1	Year on year % sales trend	−0.10	11.81	−30.1	29.2				
2	Reputation gap	1.16	8.06	−16.8	23.9	0.696(***)			
3	Log date of establishment	7.54	0.06	7.40	7.59	0.356(**)	0.172		
4	Log employee numbers	4.13	0.16	2.30	5.99	−0.351(**)	−0.249	−0.080	
5	Whether company is B2B or B2C	1.46	0.50	1	2	0.235	0.111	−0.045	−0.022

*** Correlation is significant at the 0.001 level (two-tailed).
** Correlation is significant at the 0.01 level (two-tailed).

businesses in our sample and took the logarithm of the data to eliminate the possibility of very large or small numbers overly influencing the results. Secondly, as younger companies might also have more potential to grow and to have less established reputations, we included the log of the date the business was established. Finally the effects we were examining might be expected to vary between B2B and B2C markets, in that the repeat order cycle, for example, might be longer and thus the effects smaller. Hence, we coded the B2B businesses (construction companies) in our sample with a dummy variable of 1 and B2C businesses (e.g., retailers) as 2.

Construct means, standard deviations, and correlations are shown in Table 3. Our measures of reputation gaps ranged from −16.8 to 23.9 and of sales growth from −30.1 percent to +29.2 percent

RESULTS

Interviews with customers and staff

First we report three examples from our interviews with staff and customers that illustrate the mechanisms behind our hypotheses: the transfer of affect, contrast effects, and how large reputation gaps can influence customer behavior *both* positively and negatively.

In the department store, employee views were inferior to those of customers; the reputation gap was negative (−8.7). Future sales were to decline by 11.2 percent year-on-year. This was despite an expensive refurbishment just prior to our study. A regular customer explained how he was becoming disaffected by the attitude of employees. He referred eloquently to the refurbishment as 'a facelift with the spirit left unchanged.' He pointed to a group of employees who had not been engaged with any customers during the hour he had been in the store and who had spent the time chatting among themselves. He was clearly angry and told us he would no longer shop in what had been his favorite store. His view of the store's reputation had fallen and he had substituted a previously positive view, enhanced by the expectation created by the refurbishment, with a highly negative one, indicative of a contrast effect. He was unlikely to have been alone in doing so; other customers had approached our interviewers asking for the assistance they felt they could not get from staff who appeared reluctant to approach them, or even to make eye contact.

The business also provided us with an illustration of how negative reputation gaps can be (inadvertently) created. Management had focused all of their expenditure on improving facilities for customers and none on employees, whose working environment had deteriorated (smaller and more cramped stockrooms to make greater space for product displays and a smaller canteen that closed too early in the working day). Staff also told us that they had not been adequately trained to work effectively in the new environment. Staff turnover was high, further evidence of disaffection.

In the financial services retailer, queuing times were thought by some managers to be an issue for customers but, when they tried to reduce them by encouraging staff to speed up their handling of customers, the number of errors made by staff rose. And staff members were penalized for making errors. So the employee view of reputation tended to be lower in branches with shorter queues due to the sanctions that employees suffered from making errors. Staff appeared harassed and sometimes short-tempered when the customer arrived at the service counter. One employee commented, 'Management need to make their minds up. Do I serve them (the customers) quickly or do I serve them well. I can't do both.' More important, the

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mistakes being made meant future problems for customers. In other branches, managers emphasized the importance of avoiding error rates, even if this meant other customers were kept waiting. Staff members were encouraged to empathize with customers when the branch was busy and to apologize for any waiting time. We recorded higher ratings from staff in these branches than for customers (whose ratings of the company reputation were similar across all branches), yielding positive gaps of between 2.93 and 15.94. Those branches with positive reputation gaps exhibited higher sales growth over the coming year of up to 15.4 percent; those with negative gaps showed revenue declines of up to −15.8 percent. Customers preferred being served well even if they had to wait. The financial services retailer provided us with examples of both positive and negative transfer of affect and subsequent increases and decreases in sales, consistent with positive and negative contrast effects.

The clothing retailer had been one of the most successful in its market, but had suffered from a marked reduction in sales two years earlier. An influential fashion writer had likened their sales floor to ‘a sea of gray.’ This was followed by a series of negative articles in the general as well as in the financial press, about boardroom wrangles over who should fill the vacant CEO role. The year following our study was the first year of growth for three years and this was particularly strong (12.6 percent) in one store where we measured a positive reputation gap of 11.9. One customer commented ‘They’ve had such a bad press and my friends have been so negative about XXXX that I nearly didn’t bother coming in here today. I’m pleased I did. I’ve had a great time as you can see.’ She smiled and gestured to three bags of clothes and added, looking across at two employees, ‘The people here have been really great,’ (indicative of a contrast effect). Another explained, ‘If I didn’t work opposite, I would have stopped shopping here. It’s no good telling me that you are Britain’s best retailer if the assistants can’t be bothered to do anything if they haven’t got your size. You get fed up being told that if it isn’t on the racks then that’s it. Now they’re more eager to please and will get things for you within a day if they haven’t got it in the shop. It’s much better.’ Interviews among employees revealed that their feelings toward their employer had also changed. One explained, ‘It’s a sense of relief really. They’ve finally got their act together. The new designs are really strong and you feel that you can recommend them to customers now without worrying that they’ll bring everything back tomorrow. The new supply chain is working and we get fewer stockouts...... There’s just a buzz and a confidence about the place that wasn’t there even a few months back.’

These examples support the idea that negative gaps can cause a reduction in future sales but, more important, that positive gaps can have beneficial consequences, effects compatible with Hypotheses 1 and 2. Later we discuss managers’ views on our findings. Next we describe our quantitative analyses and the formal testing of our hypotheses.

Quantitative analysis

Our analyses involved two stages. First we considered the relationships between future sales growth, reputation, and our control variables. We needed to satisfy ourselves that the reputation gap explains the variance in future sales growth beyond the contribution of its component parts, the employee and customer views of reputation. We therefore ran three similar regressions (Models 1–3 in Table 4).

The first included the reputation gap and the three control variables as independent variables (Model 1); Model 2 added the reputation as perceived by employees to this list, and Model 3 replaced the employee view with the customer view. In all three equations, the reputation gap was the most significant variable in explaining future sales growth ($p < 0.01$). Neither employee nor customer views of reputation added significantly to the explanation of sales growth. Of the control variables, only the date that the business was established was significant ($p < 0.05$), and was so in all three equations. The younger the business, the faster it grew into the future.[1] Hypothesis 1, which argues for an overall positive relationship between the reputation gap and future sales growth, was fully supported.

To test Hypotheses 2a and 2b, we divided the 56 business units into three equal groups. The first or ‘negative gap’ group (employees had a poorer

[1] The signs for the other two controls implied that the larger the business, the slower the future growth and that B2C companies grew faster than B2B. However, neither was significant at $p < 0.05$.

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Table 4. Regression predicting year on year sales growth

Variables	Model 1	Model 2	Model 3
Log date of establishment	0.249(0.008)*	0.229(0.017)	0.229(0.017)
	17.8	18.45	18.43
Log employee numbers	−0.181(0.052)	−0.136(0.204)	−0.136(0.204)
	1.04	1.18	1.18
B2B or B2C	0.177(0.052)	0.176(0.054)	0.176(0.054)
	2.09	2.09	2.09
Reputation gap	0.589(0.000)	0.465(.000)	0.593(0.000)
	0.136	0.252	0.137
Reputation: employee view		0.165(0.399)	
		0.220	
Reputation: customer view			0.090(0.399)
			0.220
Constant	−371.0	−371.6	−371.6
	134.6	134.9	134.9
R^2	60.4%	60.9%	60.9%
N	56	56	56
F	19.40	15.58	15.58

* Data shown are standardized Beta followed by its significance in parentheses with the SE of the regression coefficient shown on the line below.

view of the company than customers) had an average gap score of −7.17 (n = 19; s.d. = 3.56); the middle 'little or no gap' group (employee and customer views were similar) had an average gap score of 0.63 (n = 18; s.d. = 2.43); and the 'positive gap' group (employee views of the company were more favorable than customers) had an average gap score of 9.99 (n = 19; s.d. = 4.96). Consistent with Hypotheses 2a and 2b, the average year-on-year percent sales trend (T) was most negative, and significantly different from zero for the negative gap group (T = −9.02%, s.d. = 9.59, n = 19; t = 4.10, $p < .001$); not significantly different from zero for the little or no gap group (T = 1.33%, s.d. = 9.24, n = 18; t = 0.61, n.s.); and most favorable and significantly more positive than zero for the positive gap group (T = 7.46%, s.d. = 10.35, n = 19; t = 3.14, $p < .001$). An analysis of variance (ANOVA) applied across the three groups and controlling for firm size, age, and type was significant ($F_{2,50} = 8.03$, $p < .001$). Pairwise contrasts revealed significant differences for all three comparisons. As the gap goes from negative to positive, sales growth becomes increasingly and significantly more positive, a finding consistent with Hypothesis 1 but now establishing the existence of three different zones within that overall relationship. The findings support Hypotheses 2a and 2b that state when employee perceptions exceed (or fall below) those of customers, ensuing company performance (sales growth) is more (or less) favorable than when employee perceptions are similar to those of customers.

We first tested Hypothesis 3 by fitting a cubic relationship to the full dataset, Model 4 in Table 5. Only the linear term is significant and the increase in the R squared above Model 3, the linear model, is not significant. We then tested Hypothesis 3 by fitting a linear regression to the data in each of our three cells, negative gap, little or no gap, and positive gap (Models 5, 6, and 7 in Table 5). As the sample size for each cell is small, limiting the degrees of freedom, we first accounted for the effect of the three controls by estimating their effect on sales growth in each cell and then regressed the residual of the sales growth variable on the reputation gap. The one significant effect from any of the control variables was for the positive gap cell and for firm size (p = 0.032).

When a linear relationship was tested separately on the three groups of data (negative gaps, little or no gap, positive gaps), the three regressions of sales growth (controlled for company size, age, and type) showed significance for the negative (p = 0.039) and positive (p = 0.004) gap groups, but no significant relationship for sales growth against gap size for the middle group, where there was little or no gap (p = 0.285) (Table 5).

The *beta* values were 0.48 for the negative gap data and 0.62 for the positive gap regressions.

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Table 5. Regression predicting adjusted year on year sales growth by cell

Variables	Model 4	Model 5	Model 6	Model 7
Cell	All	Negative gap	Little or no gap	Positive gap
Reputation gap	0.544(0.000)*	0.477(0.039)	0.266(0.285)	0.624(0.004)
	0.207	0.567	0.914	0.381
Constant	364.9	−0.456	1.04	−3.37
	137.3	4.51	2.24	4.23
Reputation gap^2	−0.071(0.56)			
	0.015			
Reputation gap^3	0.101(0.57)			
	0.001			
R^2	60.7%	23.0%	7.1%	39.0%
N	56	19	18	19
F	12.61	5.02	1.20	10.9
Log date of establishment	0.245(0.01)	0.115(0.499)	0.425(0.125)	0.245(0.244)
	18.14	30.80	57.69	37.78
Log employee numbers	−0.178(0.069)	−0.077(0.75)	−0.097(0.703)	−0.479(0.032)
	1.06	2.83	2.13	1.69
B2B or B2C	0.166(0.077)	0.477(0.056)	0.251(0.359)	0.236(0.252)
	2.16	4.32	4.78	4.00

* Data shown are standardized Beta followed by its significance in parentheses with the SE of the regression coefficient shown on the line below. For Models 5, 6, and 7, the figures for the control variables are from the initial regression used to adjust the sales growth data.

There is a smaller and insignificant *beta* of 0.27 for the same relationship when the gaps are small. Sales growth (or decline) is significantly related to the reputation gap for the positive and negative gap cells, but not so when employee and customer views are similar. Hypothesis 3 and its sub-hypotheses are then supported. The relationship between future sales and the reputation gap approximates to that depicted in Figure 1.

SENSE MAKING WITH MANAGERS AND IMPLICATIONS

We presented our results to senior managers in participating companies. We also held a series of focus group discussions with middle managers from the food retailer. Managers in one business summarized much of what we were observing with the maxim 'If you treat employees badly or well they will do the same to customers.' But putting the employees' views first appeared counterintuitive to some, particularly those from a marketing background. Two ideas emerged about how to promote positive gaps that were within the human resources (HR) domain. Some managers emphasized the influence of strong corporate values, for example, 'If you tell customers you have certain values, then your organization has to live those values internally too.' In one company where the internal views were consistently stronger than the external we found that the 'company values' being promoted by their HR department were very similar and sometimes identical to those being promoted as 'brand values' by their marketing department. However both departments claimed to be unaware of the list of values the other was promoting. It is possible that having a strong corporate culture means that one might expect a similar approach from both departments. However we wonder how much more effective the management of reputation could have been if there had been better lines of communication between the two departments or a separate role responsible for coordinating reputation management.

Training was mentioned frequently as a way to instill and develop a positive internal reputation. One company had invested heavily in a training video that was unlike anything we had seen previously in that it did not focus on giving instruction to staff, but instead on emotional appeals, in a similar way to what would be expected in television advertising directed at customers. One manager explained that employees were as much exposed to their corporate advertising as customers (and probably took more notice of them) explaining 'If imagery influences them in this context, why not in training?' Appropriate training appeared as one way to close negative gaps and open up positive ones. One manager commented that the way to manage the business of a service company was to work 'inside out,' a neat way of summarizing the implications of our findings.

While no one challenged the idea that reputation was something that could and should be managed, in none of the businesses we researched was there a role designed to coordinate the actions of individual line functions. What, for example, would be the consequences if the HR and marketing roles in our earlier example emphasized quite different values? Kohli and Jaworski (1990) argue the need for significant interaction between departments, so that they can understand each other's culture and goals, and for departments to plan activities together. Inevitably, negative reputation gaps will result without coordination and, we would expect, more frequently than if there is.

Who should be in overall charge of managing reputation was unclear. In practice, different aspects fell within the remit of HR, marketing, corporate communications and operations management. The CEO was often seen as having the ultimate responsibility because only at this level do all the various strands that constitute reputation management come together. One CEO told us, 'This business is all about reputation. That has to be my prime concern. I dare not delegate the primary responsibility for something so important to someone else.' In one firm, members of the corporate communications function claimed the role of reputation management, but in most companies, communications managers complained about a lack of authority to manage what they saw as a long-term and high-level process. Other managers offered the opinion that reputation should be seen as being 'the responsibility of everyone.' True enough, but so are many strategic issues in any organization; and therefore someone should be responsible for what is potentially so important.

DISCUSSION, CONCLUSIONS, AND LIMITATIONS

The alignment of internal and external views of reputation is held to be a source of competitive advantage (Hatch and Schultz, 1997; 2001). While we concur that differences between the two (reputation gaps) are strategically important, our work shows that it is the valence and magnitude of the gap that regulates future performance. Based on our application of assimilation-contrast theory, when customers sense that the information they receive from their interaction with a service company differs little from their perception of the company's reputation, they assimilate such differences into this reference point and do not measurably change their perceptions about the company and their behavior toward it. But if they sense that the reality offered by their service experience with employees is significantly above or below that of their expectation, then they contrast their perceptions away from their prior views, recognize the difference, and are influenced through a transfer of affect. In our data, year-on-year sales growth among businesses with a clear positive reputation gap averaged over 16 percentage points higher than among those with a clear negative gap.

Our qualitative data complement the literature on the transfer of affect in that customers develop opinions about a service organization based on the emotions displayed by employees. These, in turn, are influenced by the organizational context. In each case in the examples we discussed, something had happened inside the service business that had influenced employee views either positively or negatively. As a consequence, returning customers were faced with staff members who were more positively or more negatively disposed toward the business. In the financial services retailer, the differences in staff attitude were associated with different policies being followed by individual business unit managers. We recorded differences between the internal and external reputations of the branches of all of the companies where we had data at branch level. Both findings imply that, in reality, reputation can depend upon the approach adopted by individual business unit managers.

One difference can be noted between our results and the negative link between emotional display and sales found in one previous study (Sutton and Rafaeli, 1988) where working in a very busy convenience store led employees to show negative emotions to customers. Our explanation is that the timings of the financial measures differ in that we focus on future (not historic) sales growth. It would be interesting then to explore whether sales trends can, in practice, fluctuate over time, rising after periods when staff are less busy, falling if they are under pressure.

Interestingly, none of our companies had actively explored the idea of an organizational

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solution to reputation issues. Marketing and HR departments had overlapping roles, the first responsible for defining and promoting corporate brand values to attract and retain customers, the second responsible in many firms for defining and promoting corporate values to existing and potential employees. Corporate communications managers felt they lacked the necessary clout to respond adequately to the issue of reputation gaps. As our qualitative examples demonstrate, the different actions of individual managers within the same firm can be important, suggesting that operations management need to be sensitive to the effects we observed. One organizational response would be a reputation function that embraces aspects of what are currently elements of a number of different line functions in service organizations. Although we are aware of some companies where a reputation function has these roles, none of our survey organizations had adopted such a solution.

Our study is unusual in that it compares primary data on reputation with hard financial data. Much prior work relies upon secondary measures of reputation, and in particular AMAC rankings, to argue links between reputation and financial performance. Our work is at the business unit level, whereas AMAC rankings can only be compared with data (for what are often very large and complex organizations) at the corporate level. Our conceptualization of internal reputation is similar to, but distinct from, that of organizational identity, which is generally held to refer to shared perceptions of what is central, distinctive, and enduring (Albert and Whetten, 1985; Dukerich, *et al*., 2002; Brickson, 2007). Certain aspects of an organization's identity are enduring: its history, country of origin, and the industry it belongs to; all of which influence the associations stakeholders make with it (Bernstein, 1984). But, and as the literature on crisis management makes clear, views of reputation can and do change, sometimes quite quickly. If they did not, then reputation could not be managed. Employee views of reputation differed in our sample between branches of the same organization, each sharing an identical corporate history, and so internal reputation cannot be said to represent something that is 'shared.' Different conceptualizations of an organization's identity such as perceived organizational identity (Dutton, Dukerich, and Harquail, 1994) or organizational identity orientation (Brickson, 2007), which have been shown to influence the cognitive and affective stance of employees, may represent common ground between reputation and organizational identity theory, but we would argue it would be wrong to confuse organizational identity with employee views of reputation. They are quite different concepts.

There are two major implications from our findings. First, it appears that employee perceptions have a significant influence on future sales. Hence, focusing entirely on projects designed to increase reputation among consumers, as marketing managers may do, can be shortsighted. Secondly, the previous emphasis on alignment between consumer and employee perceptions should be questioned. Doubtless there are advantages in ensuring that customers are aware of the functional aspects of a business, that certain services are offered, and that any gaps in understanding are eliminated. Our research suggests that the alignment of affective associations between employees and customers should be seen in a very different way. If, over time, employee perceptions can be consistently kept above those of customers, this and not the alignment of the two are optimal.

Further work is needed on the threshold between small and large reputation gaps. Our allocation of business units into three groups was somewhat arbitrary. Managers and researchers alike will want to know how different a customer's perception of the reality represented by employee views needs to be to trigger a contrast effect. The relationship between sales growth and reputation gap was quite different across the three cells and we believe that the form of the relationship between reputation gap and future sales is likely to be best represented at the level of the individual business by that shown in Figure 1, but our data did not fit a cubic form perfectly. A study of a large number of business units from within the same organization would be useful in exploring the exact form of this relationship.

Our outcome measure of sales growth was chosen to be compatible with our theoretical base and to be equally relevant across all businesses. However our time frame was one year. It would be useful to undertake some longitudinal studies over a longer time period. For example, if a customer panel could be recruited, then the effect of a series of interactions could be assessed and the influence of a series of assimilations or contrasts studied. It would also be useful to know how quickly the phenomenon we observe can influence sales. We

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suspect that employee views can be changed quite quickly with appropriate training, but how long does it take for the process of emotional contagion to influence customers? Is a single contact adequate or are multiple exposures needed and must they be consistent? Finally it will be interesting to observe how the role of reputation manager evolves. Currently it is far from being an established line function but may become so in service organizations. If managers accept the links between reputation gaps and sales growth, then the benefits of coordinating what are apparently disconnected areas of responsibility for managing internal and external views of reputation may promote such a new and strategic role, one charged with monitoring the differences between internal and external reputation and with the authority to ensure that the internal view is superior to the external.

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