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Measuring reputation in global markets—A comparison of reputation measures' convergent and criterion validities

Marko Sarstedt [a,b,*], Petra Wilczynski [c,1], T.C. Melewar [d,2]

[a] Chair of Marketing, Otto-von-Guericke-University Magdeburg, Germany
[b] University of Newcastle, Australia
[c] Institute for Market-based Management, Ludwig-Maximilians-University Munich, Germany
[d] Centre for Research in Marketing, Brunel Business School, Brunel University, Uxbridge, UK

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ABSTRACT

Corporate reputation has become one of the most important intangible assets for maintaining and enhancing firms' competitiveness in the global marketplace. Researchers have shown considerable interest in measuring the corporate reputation construct, resulting in a lack of consensus on valid measurement approaches. Against this background, we discuss commonly used reputation measures from a conceptual as well as theoretical perspective, and empirically compare them in terms of convergent validity and criterion validity. By examining the measures' psychometric properties, both theoretically and empirically, this study provides guidance for their reasonable application in business research and practice.

1. Introduction

Companies are increasingly becoming aware that intangible assets provide more competitive advantages than product-related sources (e.g., Czinkota & Ronkainen, 2009; Rindova, Williamson, Petkova, & Sever, 2005). Numerous authors identify corporate reputation as one of the most important intangible assets (e.g., Griffith, Ryans, & John, 1997; Parkhe, 1998; Schwaiger, Raithel, & Schloderer, 2009) playing an increasingly important role in terms of firms' propensity to influence important stakeholder groups, such as financial analysts, employees, and customers in global markets (e.g., Eberl & Schwaiger, 2005; Kitchen & Laurence, 2003; Roberts & Dowling, 2002). For example, a good reputation can improve customer confidence in a company's products or advertising claims (Ainuddin, Beamish, Hulland, & Rouseb, 2007; Fombrun & van Riel, 1997) and can increase customer commitment (Bartikowski & Walsh, 2011), customer satisfaction (Eberl, 2010; Walsh & Beatty, 2007), word-of-mouth (Walsh, Mitchell, Jackson, & Beatty, 2009) and loyalty (e.g., Walsh & Wiedmann, 2004; Walsh, Beatty, & Shiu, 2009). Moreover, a good corporate reputation can help attract and retain talent, can limit personnel fluctuation, and increase production efficiency via lower salaries and a higher employee motivation (e.g., Roberts & Dowling, 2002; Tymon, Stumpf, & Doh, 2010). Likewise, negotiation, contracting, and monitoring costs may be lower in supplier markets (Bergh, Ketchen, Boyd, & Bergh, 2010).

In terms of Srivastava, Shervani, and Fahey's (1998) framework, corporate reputation is a market-based asset resulting in a firm's improved marketplace performance and, finally, in increased stock returns. By triggering positive customer outcomes, corporate reputation affects the level, timing, and risk of a firm's future net cash flows (e.g., Eberl & Schwaiger, 2005; Fombrun & Shanley, 1990; McGuire, Schneeweis, & Branch, 1990). In essence, it is a scarce resource that is difficult to imitate and substitute, thus enhancing businesses' competitiveness in the global marketplace (e.g., Groenland, 2002; Boyd, Bergh, & Ketchen, 2010; Melewar, 2003; Raithel, Wilczynski, Schloderer, & Schwaiger, 2010). It is therefore not surprising that maintaining and increasing corporate reputation has become a crucial management objective for globally operating firms. As Gardberg and Formbrun (2002, p. 303) point out, trends such as the global penetration of markets, media congestion, and fragmentation "have amplified the importance of the company's overarching reputation as a strategic weapon for managing the company's external presence in global markets and forced closer inspection of corporate policies, actions and interactions across countries".

In order to track and improve their reputation, companies need to adequately measure their reputation and the dimensions that influence it. Measuring reputation is also of great importance for researchers who seek to examine its role as an antecedent, criterion, or moderating variable in different contexts. Research

* Corresponding author at: Chair of Marketing, Otto-von-Guericke-University Magdeburg, Germany. Tel.: +49 0391 6718625; fax: +49 0391 6711163.
E-mail addresses: marko.sarstedt@ovgu.de (M. Sarstedt), wilczynski@bwl.lmu.de (P. Wilczynski), t.c.melewar@brunel.ac.uk (T.C. Melewar).
[1] Tel.: +49 089 21805640; fax: +49 089 21805651.
[2] Tel.: +44 01895 265859; fax: +44 01895 269775.

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has therefore brought forward a vast amount of different reputation measurement approaches. However, since these reputation measures are based on different conceptualizations and operationalizations of corporate reputation, they reveal inconsistent company ratings, making it difficult for researchers and managers to assess how stakeholders perceive a firm in the competitive marketplace (Fombrun, 2007). This lack of consensus on valid measurement approaches has been frequently criticized (e.g., Nguyen & Leblanc, 2001; Wartick, 2002) and is generally considered the biggest barrier to an effective reputation management (Larkin, 2003; Walker, 2010).

Research has addressed this criticism by providing theoretical discussions of selected measurement approaches (e.g., Berens & van Riel, 2004; Helm & Klode, 2011; Lewis, 2001; Wartick, 2002). While these reviews provide important insights into the conceptual and definitional underpinnings of different measurement approaches, they lack a comprehensive evaluation of the statistical validities of reputation measures. In fact, there is as yet no empirical comparison of the psychometric properties of reputation measures. Furthermore, prior discussions are restricted to conceptual differences and do neither examine the concrete measurement models used nor the psychometric principles underlying their construction.

It is this gap in the research that the present article seeks to close by reviewing and empirically comparing popular corporate reputation measurement approaches. First, we critically review several measurement approaches, taking into account recent measurement theory research and current findings from the reputation literature. Second, using an empirical survey in the German mobile phone sector, we compare the measures in terms of convergent validity, which is a fundamental criterion of any measurement instrument (e.g., Churchill, 1979; Nunnally & Bernstein, 1994). Furthermore, we adopt the most important criterion for decision-making purposes: criterion validity (e.g., Aaker, Kumar, & Day, 2007; Bergkvist & Rossiter, 2007). We evaluate the degree to which the reputation measurement approaches correlate with relevant outcomes such as loyalty, word-of-mouth, trust, and customers' behavioral intentions (e.g., Bartikowski & Walsh, 2011; Davies, Chun, Vinhas da Silva, & Roper, 2004; Hall, 1992). Examining these associations is crucial because customer relationships (as indicated by, e.g., satisfied and loyal customers) positively affect a firm's future net cash flows and marketplace performance (e.g., Luo & Homburg, 2007; Raithel, Sarstedt, Scharf, & Schwaiger, 2012). By examining the measures' psychometric properties, both theoretically and empirically, this study provides guidance for their reasonable application in business research and practice.

2. Literature review

The ever increasing number of construct measures reflects the growing importance of reputation research. Berens and van Riel (2004) systematically explore the vast body of literature on corporate reputation with respect to the types of associations used as a basis to conceptualize and measure reputation. The authors identify three main conceptual streams of approaches: (1) social expectations which capture stakeholder expectations regarding companies' behavior in society, for example, in terms of product quality, financial performance, and corporate social responsibility; (2) approaches that differentiate between the personality traits that stakeholders associated with firms (e.g., Chun & Davies, 2006, 2010); and (3) trust-based approaches (e.g., Newell & Goldsmith, 2001).

While Berens and van Riel's (2004) review clearly shows that there is no one definite set of associations, the social expectations concept is by far the most prominent one, which is also mirrored in a vast number of studies applying reputation measures related to stakeholders' social expectations (e.g., Bartikowski & Walsh, 2011; Eberl, 2010; Raithel et al., 2010; Roberts & Dowling, 2002; Schwaiger et al., 2009; Walker, 2010; Walsh, Mitchell, et al., 2009). Since it lies in management's very nature to wish to ascertain public perceptions of firm behaviors in a broad benchmark context, this type of approach seems most promising (Berens & van Riel, 2004). Consequently, we focus on comparing measurement approaches from the social expectations field.[3]

Measures in this field usually relate to one or more facet(s) of these expectations and condense them into more abstract higher-order constructs such as financial performance and corporate social responsibility (Brown & Dacin, 1997). The most prominent examples from this field are the America's Most Admired Companies index (e.g., Hutton, 1986) and the Reputation Quotient (Fombrun, Gardberg, & Sever, 2000). Extending the Reputation Quotient, Walsh and Beatty (2007) introduced a further measurement approach specifically tailored to service firms' end-user customers—the customer-based corporate reputation scale.

All these approaches are based on classical test theory and its assumptions regarding the relationships between a construct and its indicators. Accordingly, indicators denote the underlying construct's effects (or manifestations), implying a causal link from the construct to the indicators (e.g., Bollen & Lennox, 1991; Diamantopoulos, Riefler, & Roth, 2008).

Schwaiger (2004) and Helm (2005) note that this type of measurement perspective does not necessarily hold for corporate reputation. They conceptualize reputation as a formative construct in which the indicators cause the latent variable; that is, changes in the indicators determine changes in the latent variable (e.g., Gudergan, Ringle, Wende, & Will, 2008). It is crucial to consider the measurement perspective explicitly, since reflective and formative item purification guidelines use fundamentally different criteria to retain and exclude indicators; the latter generally encourages eliminating items with high inter-item correlations, while the former drops items with low inter-item correlations (Diamantopoulos et al., 2008). In particular, erroneously applying reflective scale purification techniques can substantially alter formative constructs' meaning and may ultimately lead to materially different multi-item measures in terms of content, parsimony, and criterion validity (Diamantopoulos & Siguaw, 2006). Thus, the choice of measurement perspective is crucial when measuring a complex construct such as corporate reputation.

In light of this discussion, we consider the following five measurement approaches to corporate reputation which have been frequently applied in marketing and management research and practice: Americas Most Admired Companies index (Hutton, 1986), the Reputation Quotient (Fombrun et al., 2000), Walsh and Beatty's (2007) customer-based reputation scale, and the formative approaches developed by Schwaiger (2004) and Helm (2005).

2.1. America's Most Admired Companies (AMAC) index

Fortune's AMAC index (Hutton, 1986) was the first reputation ranking of US firms on a global level. The index has later been further developed into the World's Most Admired Companies (WMAC) index, which is annually reported by the Fortune magazine. Owing to the availability of long-term data, which allows for longitudinal analyses and the breadth of industries and companies covered, the AMAC index is the most commonly used measure of corporate reputation in research (e.g., Basdeo, Smith, Grimm, Rindova, & Derfus, 2006; Walker, 2010). In its original form, the AMAC comprises the following criteria: (1) financial

[3] In addition, it would, from a psychometric perspective, be misleading to include personality or trust-based approaches, as these are based on different conceptual definitions of the sampling domain.