YIJING WANG

Corporate Reputation Management

Reaching Out to Financial Stakeholders

Corporate Reputation Management: Reaching Out to Financial Stakeholders

Corporate Reputation Management: Reaching Out to Financial Stakeholders

Het managen van ondernemingsreputatie: Hoe financiële belanghebbenden te bereiken

Thesis

to obtain the degree of Doctor from the

Erasmus University Rotterdam

by command of the

rector magnificus

Prof.dr. H.G. Schmidt

and in accordance with the decision of the Doctorate Board.

The public defense shall be held on

Friday 8 February 2013 at 11:30 hrs

by

Yijing Wang

born in Nanjing, China

Doctoral Committee

Promoter:	Prof.dr. C.B.M. van Riel
Copromoter:	Dr. G.A.J.M. Berens
Other members:	Prof.dr. P. Roosenboom
	Prof.dr. S. Brammer
	Prof.dr. P. Heugens

Erasmus Research Institute of Management – ERIM
The joint research institute of the Rotterdam School of Management (RSM)
and the Erasmus School of Economics (ESE) at the Erasmus University Rotterdam
Internet: http://www.erim.eur.nl

ERIM Electronic Series Portal: http://hdl.handle.net/1765/1

ERIM PhD Series in Research in Management, 271
ERIM reference number: EPS-2013-271-ORG
ISBN 978-90-5892-316-5

Design: B&T Ontwerp en advies www.b-en-t.nl

This publication (cover and interior) is printed by haveka.nl on recycled paper, Revive®.
The ink used is produced from renewable resources and alcohol free fountain solution.
Certifications for the paper and the printing production process: Recycle, EU Flower, FSC, ISO14001.
More info: http://www.haveka.nl/greening

To dad and mum,

source of unceasing and unconditional support

PREFACE

There are a lot of people to whom I am greatly indebted for contributing to my Ph.D journey in different ways. First and foremost, I would like to acknowledge the supervision and help of Cees (van Riel). Cees, my dear mentor, without you, there would be no such a book. Thank you for introducing the whole new world of corporate communication to me. During the past four years, you guided me to explore many interesting research questions by your rich knowledge, experience and gut feelings. Whenever I need a brainstorm or inspiration, your engagements always pull me out of a ciaos, and guide me to some promising solutions. I am very grateful to you for your openness and constant encouragement. Thank you for all the opportunities you provided me with and for having faith in me all the time.

I am greatly indebted to Guido (Berens) for your day-to-day supervision. Guido, I have benefitted substantially from your comments on this dissertation page-by-page and word-by-word. From the very first day, you started to drop by my office, get me some tea and inspire me by some friendly conversations. Later on, to exchange some research ideas with you in the evening has become a joyful part of my Ph.D life. I consider myself extremely lucky to have had your frequent advice on every single step of my research in the past four years. In addition, your rigorous research attitude and your modest personality both helped me develop my understanding of a good researcher. Thank you for being such a wonderful mentor. Your unparalleled responsiveness and availability are far beyond what I could acknowledge.

The recommendation from Miles (Livingston) and the encouragement from Arno (Blezer), were the first step toward my Ph.D study. I am grateful to Pursey Heugens, Peter Roosenboom and Stephen Brammer for your consideration and approval of my manuscript. This book benefits particularly from the inspiring conversations with Fred Gertsen, Davide van der Zande, Huub ten Holter, Peter Heijen and Roelof Salomons at the beginning of my Ph.D. Your professional knowledge on institutional investors provided me with insightful thoughts for developing a conceptualization framework of financial reputation. I would also like to express my gratitude to David Deephouse, Violina Rindova and Davide Ravasi for your critical and constructive comments on the proposal of this dissertation. I strongly thank Charles Fombrun, David Deephouse, Davide Ravasi, Elizabeth Garud, Janet Dukerich, Joël Petey, Michael Barnett, Mignon van Halderen, Peter Roosenboom, Stephen Brammer and Tom Brown for your intensive discussions on the earlier version of my chapters.

I would like to thank my "CCC family" for your great support during these years. Joke, you kept the "gazellig" atmosphere at CCC around. Without your help on the crucial issues (e.g. contracting, organizing the trips for my scholar visitors, fitting me in the full agenda of Cees, etc.), I can hardly concentrate on my research all the time. Mignon, talking to you is always a nice and pleasant experience. Your openness and willingness to help constantly encouraged me to persist in my "Ph.D Game", regardless of any frustrating findings or depressing steps. My special thanks go to my roommate, Edwin. Without you, I would definitely lose the fun part at work. Although our most conversations had nothing to do with work, you never stop inspiring me by brilliant ideas, and some discussions with you ended in a substantial improvement of my research model. Patricia and Marijke, my buddies, thinking back, we have shared so many joys and sadness. Patricia, for any questions that I put forward, you are always standing by to help and you can always manage a thoughtful and precise answer. To me, you are undoubtedly a good researcher. Marijke, you simply have the magic power to chill me up at the moment when I most needed the energy to carry on. Majorie, you are a strong and silent force at CCC. Your "in time" humour always makes me keep on laughing. Ahong, a chat with you in our mother tongue is just a perfect break between intensive works. Kirsten and Albert, your short but close companies are an indispensable joy and support to me. I also thank Johan van Rekom for your sharp comments and invaluable advices on my research.

ERIM offers a great atmosphere for Ph.D students. I am grateful to all the open-minded doctoral colleagues: Amir, Aybars, Dai Yun, Feng Ying, Huang Xiaohong, Ivana, Jochem, Kate, Liu Ning and Gao Yu, Ma Yingyi, Nima, Petra, Pushpika, Wang Pengfei, Yang Guangyuan and Zhu Jiansong, Yang Yang, Yu Yugang and Xiong Yan, Zhou Haibo…Thank you all for enlightening my life with so many inspiring stories and brilliant ideas. Special thanks go to helpful ERIM staff: Tineke, Marisa and Mariska. Thank you for your priceless support during these years.

My dear friends, Cai Juanjuan and Fang Feng, Di Yuxin, Hu Rui, Huang Zhenxing and Xie Dan, Ivy, Li Chen, Li Wei and Zu Yang, Li Zhihua, Mashiho and Oli, Yang Shengyun and Vic and Zhang Ling, thank you for making my life in the past four years different. The happiness and sadness we shared together all contributed to our unique and joyful friendship.

I also wish to thank my dear neighbours for the sense of belonging. Mik, Casper, Vivien, Lilian, Ineke, Mario, Emily, Tim, Nan, Hans…, thank you all for your unreserved friendships. Your care and constant help make me feel that the Netherlands is a delightful place to stay.

I am particularly thankful to my family-like friends Laurens, Fatima, Alex and Francien. Every time we met, it was just a “magic click” for happiness. We have so many things to share with each other, but time simply flies before we have to kiss goodbye. Especially, Laurens and Fatima, thank you for accommodating me regularly in Lisbon, treating me with home-made delicious and accompanying me to explore the most local and beautiful places in Portugal. Alex and Francien, my debt of gratitude can hardly be repaid to you. Without your enormous help and support after the movement, I can hardly sit back in my office and continue to work on my research promptly. Thank you all for always being there.

My deepest thank go to my beloved family. Grandpa, grandma, dad and mum, words cannot begin to describe my appreciation and gratitude for all you have done for me. Without your unceasing and unconditional love and sacrifice, I would have never made it this far! You have always inspired me to do my best and have supported me in every decision I have made. Thank you for giving me the freedom to follow my passion and pursue my dream, even if some of them took me to the other side of the world. I want you to know that I would not be who I am if it weren’t for you, nor could I have pushed my way through so many obstacles in life if I hadn’t learned from your example.

Chen, this is only happening because you are here with me. You have been a true and great supporter and have unconditionally loved me during my good and bad times. The past four years have not been an easy ride, both academically and personally, but your heart never hesitated to help. So it deserves a heartful “thank”: I truly thank you for sticking to my side and for being my pillow of strength through all the ups and downs. To you, my best friend, my dedicated attention and my love!

Rotterdam

October 10, 2012

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

INTRODUCTION

1.1 Introduction

Charles Dickens described in his 1857 novel, *Little Dorrit*, a scam scheme, which pays returns to investors from the money paid by subsequent investors. Such a scheme was latterly perfected by Charles Ponzi in the 1920s and named "Ponzi scheme" after him. Based on the arbitrage of international reply coupons for postage stamps, Charles Ponzi promised investors to double their investments in three months, and really did so for the initial investors. Since then, his personal reputation boomed and thousands of people invested their life savings, borrowed money or mortgaged their homes to get in on this investment. Clarence Barron, the publisher of *Barron's* financial newsletter, discovered that there were only 27,000 postal coupons in existence, while to cover Ponzi's investors, about 160 million are needed (Markopolos and Casey 2010). Even by then, enthusiastic people simply ignored these warnings and kept on pursuing this get-rich-quick opportunity. However, this scheme was doomed to eventual failure as no real value is created and no extra wealth is generated. At the collapse of the scam kingdom, Ponzi's investors lost about 20 million in 1920 dollars (approximately 225 million in 2011 dollars), and he was sent to jail and died in poverty (Burnsed Novermber 18, 2011). Rather than investors getting smarter, Ponzi schemes have become common since then. More recently, the former non-executive chairman of the NASDAQ stock market, Bernard Madoff, operated the world's biggest and longest-running Ponzi scheme from the 1970s until his arrest in 2008, which caused investors to suffer huge losses around the world, estimated at 65 billion US dollars.

The substantial successes of these Ponzi schemes can be partially attributed to the impeccable personal reputations of the operators. For instance, Madoff was recognized as "the first prominent practitioner of payment for order flow" (Wilhelm and Downing 2001, p. 153) and "a prominent philanthropist" (Appelbaum, Hilzenrath and Paley December 13, 2008, p. D01). Harry Markopolos, who figured out Madoff's scheme before anyone else, said in an interview that "He had the patina of being a respected citizen, one of the most successful businessmen in New York, and certainty, one of the most powerful men on Wall Street. You would never suspect him of fraud." (Court and Sharman June 10, 2009). One of the largest fund feeders of Madoff, the Fairfield Greenwich Group, declared that they were the victims of Madoff's impeccable reputation.

> *"Contrary to speculation that has appeared in the media, Fairfield engaged in continuous, ongoing monitoring of Madoff's activity. That monitoring and the fact that every redemption request was honored -- combined with Madoff's then-impeccable credentials, reputation and technology, multiple reviews of Madoff by the SEC, the NASD and numerous auditors and investors, high credit ratings assigned to Madoff-related products by Fitch, S&P and Moody's, and an unblemished course of dealing over many years -- all contributed to our confidence that the investments with Madoff were appropriate and safe."*
>
> ----- *Fairfield Greenwich statement in Court and Sharman (June 10, 2009)*

In light of Madoff's scam, it turns out that the confidence of overwhelming investors, such as the Fairfield Greenwich Group, has been tragically misplaced. Nevertheless, the power of reputation demonstrated in these scams reflects its importance in three aspects. First, its role in maintaining investors' confidence is in line with discussions by academic scholars (see e.g. Beatty and Ritter 1986; Helm 2007). Although known as rational decision-makers, investors can hardly ignore the signals of a good reputation for their investment decisions (Shefrin and Statman 2000; Shiller 2003). This view is well supported by the signalling theorists, who believe that in an incomplete information setting in which the information available is insufficient or too abundant to make a sound judgement, the asymmetric information forces external observers to rely on proxies to describe the preferences of rivals and their likely courses of action (Weigelt and Camerer 1988). The importance of reputation information, as a consequence, is enforced on

external observers, such as investors for reducing uncertainties in decision making (Milgrom and Roberts 1986; Poiesz 1989). Second, the beneficial consequences of establishing a good reputation for the scam operators are substantial. Madoff rightly had recognized the crucial role of reputation in building up his scam kingdom. The sophisticated manipulation of his personal reputation, as a consequence, brought him long-lasting glory and fortune, even without creating any real value or generating any extra wealth. Third, Madoff also demonstrated the possibilities to manage reputation effectively. As a prominent philanthropist, he served on boards of non-profit institutions. He donated approximately 6 million US dollars to lymphoma research (Friedman December 13, 2008) and gave over 230, 000 US dollars to political causes since 1991 in support of the Democratic Party (Zajac and Hook December 22, 2008). All these charitable contributions could be strategically made to raise his reputation, as well as to increase the value of his "moral capital" (see, e.g. Brammer and Millington 2005; Godfrey 2005). Although it turned out that Madoff was just playing these "philanthropy games" to boost his scam, it is undeniable that he manipulated his reputation so successfully that neither the financial analysts nor the institutional investors could escape from its attractiveness.

In contrast to these scams, other organizations, though committed to real value-creating activities, may be trapped in financing difficulty in attracting investors due to poor corporate reputations. For instance, after the Gulf of Mexico spill, "BP is definitely on the watch list at many banks and counterparties", because investors and creditors are afraid of the "uncertainties created by the Obama Administration's approach to penalize BP", which may accentuate BP's potential funding crisis (Sandler August 12, 2010). Similarly, many giant financial institutions suffered a severe liquidity problem after the financial crisis in 2008, because the reputation of the whole industry is catastrophically damaged in this event. Comparing these organizations' difficulties in raising funds to the conveniences of those Ponzi scheme operators, the questions are, then, whether the three aspects of reputation management that appeared at the individual level in Madoff's example also apply in an organizational context (i.e. corporate reputation). These aspects are (1) the power of reputation in creating confidence among financial stakeholders, (2) its beneficial consequences to the actor by attracting financial stakeholders and (3) the strategies of managing a good reputation.

Chapter 1

1.2 Research Question Development

Corporate reputation is an overall assessment of an organization by stakeholders (Fombrun 1996; van Riel and Fombrun 2007). Organizational theorists have distinguished it from other corporate intangible assets, such as legitimacy (Deephouse and Carter 2005), celebrity (Rindova, Pollock and Hayward 2006; Pfarrer, Pollock and Rindova 2010) and status (Podolny 1994; Benjamin and Podolny 1999). In addition, it has been labelled in various disciplines in management, marketing and strategy literature as: Corporate associations (Brown and Dacin 1997), corporate awareness (Roberts and Dowling 2002), generalized favorability (Rindova, Pollock and Hayward 2006), etc. (for an overview of the terminology, see Fombrun and van Riel 1997; Barnett, Jermier and Lafferty 2006; Lange, Lee and Dai 2011).

In spite of the variety in conceptualizations, several features of corporate reputation can be abstracted from these definitions. First, corporate reputation is viewed as a social aggregate—a perception among collectivities or groups of individuals. It suggests that it matters among which group a perception holds in defining and interpreting reputation (Deutsch and Ross 2003). For instance, a firm may be seen as having a reputation for high-quality products by customers, but as having poor labor relations by employees or as having questionable environmental practices by communities (Deutsch and Ross 2003). Therefore, distinguishing reputations among different stakeholder groups is an important pre-condition for clarifying the role of corporate reputation. Second, corporate reputation is a perception by stakeholders of an organization, rather than a property owned by the organization. As a type of feedback, it concerns the credibility of an organization's identity claims (Whetten and Mackey 2002). Thus establishing a good corporate reputation requires an appropriate and effective management of the perceptions of stakeholders. Last but not the least, reputation reflects a relative assessment by stakeholders. Because the information processing that lies at the basis of stakeholders' perceptions takes place in a shared institutional environment, the assessments of a firm also depends on the goodness of its peers (Ashforth and Gibbs 1990). Reputation rankings, for instance, are social constructions reflecting such a relative evaluation of the relationships of a focal firm with its stakeholders. The most well-known example is the *America's Most Admired Companies survey*, first published in 1982 by *Fortune* magazine.

Building on this definition of reputation, I focus my attention on perceptions among financial stakeholders. The relationship between corporations and financial stakeholders is a typical agency problem, discussed by agency theory (Demski and Feltham 1978; Harris and Raviv 1979; Holmstrom 1979). At contracting, due to high asymmetric information between these two parties, financial

stakeholders do not know exactly what actions the corporation is going to take. As a consequence, given the self-interest of the corporation, it may or may not behave as agreed, which increases managerial opportunism (Eisenhardt 1989). Two aspects of such an agency problem are documented in literature. On the one hand, a potential moral hazard problem refers to the possibility that the corporation may simply not put forth the agreed-upon effort. For example, Madoff used an inappropriate technique (i.e. generating fake trading if needed) to cover his scam, rather than working on any real-value-creation investments. However, since an investment strategy by itself is so complex, financial stakeholders could hardly detect what he was actually doing. On the other hand, an adverse selection exists. It refers to the misrepresentation of ability by the corporation. For instance, the corporation claims to have certain skills or ability to deliver attractive returns at contracting, and financial stakeholders cannot judge whether this is the case. Thus, a higher risk premium must be contracted to compensate for the uncertainty, which potentially punishes good firms with a promising performance.

Nonetheless, since the reputation literature suggests that a good corporation reputation reflects consistent strategic behaviors of a corporation in fulfilling the expectations of stakeholders (Fombrun and Shanley 1990; Roberts and Dowling 2002), it may help in mitigating the moral hazard and adverse selection problems in the financial market. Eisenhardt (1989) proposes two options for financial stakeholders to mitigate the agency problem. One is to discover the corporation's behavior by investing in information systems (e.g. reporting procedures), which reveals the corporation's behavior to financial investors. The other is to contract on the outcomes of the agent's behavior. In line with these options, by establishing a good reputation, a corporation signals financial stakeholders the credibility of its behaviors, which reverts the incomplete information case into a more transparent situation (Weigelt and Camerer 1988). In addition, because a good reputation reflects a high assessment of a corporation's performance relative to norms and expectations in an institutional field (DiMaggio and Powell 1983; Shapiro 1987), with a good reputation, the outcome uncertainty is low, the costs of shifting risk from a corporation to financial stakeholders are low and outcome-based contracts will become attractive. Therefore, the economic value of corporate reputation for financial stakeholders stems from a crucial role of reputation in reducing the agency problem.

Motivated by the importance of corporate reputation in attracting financial stakeholders, this dissertation sets out to understand the relationship between corporate reputation and a company's attractiveness to financial stakeholders. Despite the extant literature on the determinants and consequences of reputation among different stakeholders such as customers, employees and financial

analysts, gaps remain in explaining the relationship between corporate reputation and attracting financial stakeholders. First, the mechanisms by which reputation influences financial stakeholders are not clearly identified in literature. In other words, why does corporate reputation play an important role in attracting investors? Second, what are the potential beneficial consequences to a corporation by establishing a good reputation among financial investors? For instance, besides the profitability, does a good reputation influence the costs and financing flexibility of a firm too? These positive consequences are likely the main driving forces of a firm for committing to reputation-promoting activities. Therefore, it is necessary to address the economic value of corporate reputation in the financial market by analysing its benefits in improving various performances. Last but not the least, how to achieve a good corporate reputation among financial stakeholders? Because the interests and expectations of investors differ from other stakeholders, their concerns may also vary in terms of reputation. Thus, an investigation into the antecedents of corporate reputation with respect to financial stakeholders is indispensable. Moreover, achieving a good reputation is never a free lunch. Hence, how to allocate limited resources in order to achieve a good reputation for attracting investors is an important question.

1.3 Contents of this Dissertation

While all three studies fit within the main topic of this dissertation, they address different literature gaps and answer corresponding research questions. The diversity in research questions mirrors the idea that the relationship between corporate reputation and attracting financial stakeholders is not straightforward, and needs an in-depth examination from different angles.

Study 1 in Chapter 2 addresses the need for identifying whether a good corporate reputation benefits firms financially. I reveal the influences of reputation on equity investors, compared to those of a pre-condition of reputation—visibility, and analyse the specific economic outcomes of visible and reputed firms in the stock market with respect to stock return and risk, respectively. Theoretically, this study sheds light on the management-finance interface by drawing attention to the formation, importance and impact of corporate reputation and visibility. Empirically, it identifies the economic values of reputation and visibility by investigating their risk-reduction potential.

In *Study 2* in Chapter 3, I address the lack of research on comparing reputations among different stakeholder groups, by developing novel theoretical arguments about the mechanism through which two distinct types of perceptions—public reputation and financial reputation—may affect firm outcomes. Further, I test those theoretical arguments empirically. In addition, this study shows that a firm can establish a good reputation among different stakeholders through engaging in different types of socially responsible activities. In other words, I identify different corporate social performance antecedents of public reputation and financial reputation.

Study 3 in Chapter 4 focuses on the impact of corporate reputation on reducing different uncertainties stemming from the agency problem, in the investment decision process of financial stakeholders. I distinguish two aspects of corporate reputation among financial stakeholders—trustworthiness and attractiveness—and identify their distinct impacts on reducing management and business risks of investors. Furthermore, I also study the impacts of the key antecedents associated with trustworthiness and attractiveness, which may provide guidelines for reputation management. Table 1 lists the main study constructs and methodologies used in the studies.

The remainder of this dissertation is organized as follows. From Chapter 2 to Chapter 4, I present the three studies in their totality, i.e. theoretical developments, data and variable construction, methods, results, and discussion. Chapter 5 provides a discussion of the overarching contributions, managerial implications, limitations and suggestions for future research of this dissertation.

Chapter 1

Table 1. The research designs of the studies included in this dissertation

Chapter	Study	Reputation Antecedents	Reputation Dimensions	Dependent Variable	Methodology
Chapter 2	1. Being known or being appreciated? The economic values of corporate reputation for investors	Visibility	Overall corporate reputation	Stock performance	Portfolio analysis
Chapter 3	2. Corporate social performance and corporate financial performance: The mediating roles of corporate reputations among financial and public stakeholders	Economic, legal, ethical and philanthropic corporate social performances	Public reputation vs. financial reputation	Free cash flow	Structural equation modelling through partial least squares
Chapter 4	3. Competing in the capital market with a good reputation* * This paper has been published as: Wang, Y., G. Berens and C. van Riel, B. M. (2012). Competing in the capital market with a good reputation, ***Corporate Reputation Review***, Vol. **15** (3), p. 198-221.	Performance, citizenship, workplace, products, innovation, governance and leadership	Trustworthiness vs. attractiveness	Leverage level determination model	Multivariate regression analysis

CHAPTER 2

STUDY 1 — BEING KNOWN OR BEING APPRECIATED? THE ECONOMIC VALUES OF CORPORATE REPUTATION FOR INVESTORS

Abstract

Whether a good corporate reputation benefits firms financially has been a hot debate among academics and practitioners since decades. This paper aims at increasing understanding about this issue, by revealing the economic value of the reputation of a firm, compared to the visibility of the firm. We analyze the specific economic outcomes of visible and reputed firms in the stock market with respect to stock return and risk. Theoretically, we shed light on the management-finance interface by investigating the risk-reduction potential of visibility and reputation. We find that a high visibility generates a higher total risk and idiosyncratic risk to firms, but not a higher expected stock return. On the contrary, a higher generalized reputation endows lower risks to a firm, but not a lower expected stock return. In addition, the risks of less visible firms are higher than those of reputed firms, but lower than those of less reputed firms. Practically, the results empower managers to manage firms' reputation and visibility strategically, in order to communicate with investors in an effective way.

Keywords: *reputation; visibility; stock performance; idiosyncratic risk; reputation ranking*

Chapter 2

2.1 Introduction

With the goal of enhancing reputation, firms devote tremendous efforts to establishing a high visibility, by substantial expenses on advertisements or sponsoring. However, a high visibility does not necessarily bring positive consequences (Brooks, Highhouse, Russell and Mohr 2003). It can even be harmful to a firm's survival under some circumstances, such as a negative event. One example is the US insurance giant, the American international Group (AIG). As the principal sponsor of English football club Manchester United from 2006 to 2010, its logo was prominently displayed on the front of the club's jerseys and other merchandise. As a consequence, it became one of the most visible insurance firms all over the world. After experiencing the most tremendous quarterly loss in corporate history,[1] AIG accepted a rescuing program—the Federal Reserve bailout. Meanwhile, it planned to payout bonuses to its executives reaching an amount of $1.2 billion in March, 2009. Such behavior was highly criticized by media and politicians as "horrible" and "outrageous", since the bonus budget is recognized as part of the rescuing program, which is eventually covered by the US taxpayers. From investors' perspective, the bonus payment controversy does not necessarily hurt investors' value, because such a bonus payment is pre-agreed in the purpose of stimulating executives to behave towards investors' interests. Nevertheless, this payment controversy further weakened investors' confidence, which evoked a global negative reaction on AIG's stock price in that month. The consequent negative stock market reaction is catastrophic to AIG's survival. Although AIG presumably intended to enhance its reputation through its highly visible sponsoring activities, it seems that during the payment controversy, the company's high visibility did little to protect its reputation of AIG, and might even have increased the damage.

The story of AIG suggests that a high visibility of a company might broaden a crisis due to intensive media attention and concerns among the general public, which directly influences investors' evaluations and confidence. Nevertheless, a high visibility can be seen as one of the necessary conditions of a good reputation (Pfarrer, Pollock and Rindova (2010), implying that it is not straightforward to distinguish the consequences of visibility from those of reputation. A good reputation can help maintain investors' confidence (Helm 2007) and thus protect a firm's stock performance from unappealing market reactions after a negative event. Such an impact might eventually reduce the vulnerability induced by a high

[1] In September 2008, AIG suffered from a liquidity crisis when its credit ratings were downgraded to below "AA" levels, and its share price had a catastrophic decline over 95% to just $1.25 by September 16, 2008 from a 52-week high of $70.13 (Morgensen and Walsh 2008).

visibility. This phenomenon raises our interest in distinguishing the economic values of visibility and reputation in terms of stock market performance.

This paper aims at clarifying the effects of visibility and reputation on stock market performance. We investigate the specific economic outcomes of visible and reputed firms in the stock market in terms of stock return and risk. The contributions are twofold. Firstly, we shed light on the management-finance interface by drawing attention on distinguishing the formation, importance and impact of visibility and reputation. To explain the relationship between reputation/visibility and market performance, we develop a theoretical framework to clarify the effects of visibility and reputation on investors' propensities to invest in a firm. Secondly, we empirically identify the distinct economic values of visibility and favorability. To our knowledge, this study is the first to elaborate understanding of the impact of visibility and reputation as risk reduction proxies (specifically, idiosyncratic risks) on decision making processes among investors. Based on the theoretical and empirical findings, we provide managerial implications regarding the way in which firms intending to gain competitiveness in the equity market can attract investors.

2.2 Theory Development

2.2.1 The importance of a sustainable stock market performance

Stock performance is a market-based measure of a firm's general performance. It reflects the market's perception of a firm's future value. Edmans (2011b) suggests that stock market performance is more directly linked to shareholder value than profitability is, since stock performance captures all the channels through which an asset (e.g. corporate reputation) may contribute to the market value of a firm. In addition, stock performance provides the possibility to evaluate the risk-adjusted performance of a firm, which is highly important for investors (Becchetti, Ciciretti and Hasan 2007).

Firms generally strive for a good and stable stock performance for several reasons. The most straightforward reason is that with a sustainable stock performance, they are more capable of attracting new equity investors, as well as maintaining incumbent long-term equity investors. The empirical findings in finance literature confirm that institutional investors prefer to invest in blue chips because of a lower volatility associated with their stock performance (Falkenstein 1996; Frieder and Subrahmanyam

2005). Particularly, when there exists a high uncertainty in the market due to information asymmetry, firms with a lower risk become more attractive to foreign investors since their costs of evaluating other firms are higher (Kang and Stulz 1997). A superior stock performance also enhances the confidence of other investors, such as debt investors. Debt holders not only consider a firm's payback of interests, but also the probability of financial distress (Marsh 1982). Since a firm's stock price reflects the potential to default of a firm, it is also associated with the probability of distress. A high volatility of a firm's stock price may correspond to a higher probability of default, which is harmful to the profits of debt investors. In a broader context, stock performance can also influence the perceptions of other stakeholders. For instance, to mitigate the negative consequences of agency problems, CEOs' compensations have been gradually linked to stock performance to improve their incentives for maximizing their firms' value (Mehran 1995; Leone, Wu and Zimmerman 2006). A similar strategy is carried out to improve employees' incentives by awarding them stock options (Bens, Nagar and Wong 2002). As a consequence, the profits of both CEOs and employees are highly associated with a firm's stock performance, and their incentives and perceptions will change according to variations in the stock price. And last but not least, a sustainable stock price also contributes to the formation of a firm's reputation. Because stock performance signals a firm's inherent quality to investors, their intentions of purchasing these valuable stocks "also signal other publics that the firms have the inherent potential to meet some of their objectives, be they economic or social" (Fombrun and Shanley 1990: 238). Therefore, a greater stock performance is usually associated with a better corporate reputation.

To summarize, achieving a sustainable stock performance is important for a firm not only because it signals a firm's quality and risk vulnerability to investors, but also because it influences perceptions of other corporate constituents. These effects create a feedback loop, in the sense that the better a firm's stock performance, the more funds it will attract from new investors and the more support it will receive from other stakeholders, which will further enhance its value.

In the classical finance theory, stock market performance is evaluated on two aspects: expected return and risk (Tobin 1958; Fama and MacBeth 1973). After half a century, these two indicators are still the most popular proxies of stock performance (see e.g., Bauer, Koedijk and Otten 2005; Statman, Fisher and Anginer 2008; Edmans 2011b; Anginer, Warburton and Yildizhan September 2011). The expected return reflects investors' expectations on the differences between a firm's present stock price and the expected price in the future (Fama 1990; Fama and French 1992). A positive expected return tells investors that a firm is devalued for now, and has a potential to grow in the future. Risk is defined as an

uncertainty about outcomes or events, especially with respect to the future (Bloom and Milkovich 1998). On the one hand, by understanding the degree of risk and a firm's risk taking, investors can judge a firm's adaptability to change and its growth potential. This information is crucial to investors for their decision making, especially during harsh economic times. On the other hand, a firm's ability to manage its risk makes a difference in attracting investors, since greater risk suggests vulnerable and uncertain cash flows in the future (Luo and Bhattacharya 2009). As a consequence, risk management plays an important role in the organization's health. Miller and Bromiley (1990) suggest that stock market risk is the market-based performance measure that is most relevant to investors.

Because expected return can be considered as a compensation of risk (Fama and MacBeth 1973), a firm with a higher expected return, bearing the same level of risk, is regarded as having a better performance. Similarly, a firm with a lower stock market risk, with the same level of expected return, is preferred by investors. In this study, we compare the effects of being known and being appreciated on these two aspects of stock market performance.

2.2.2 The economic value of a high visibility

Visibility refers to the level of public attention for a firm (Rindova, Pollock and Hayward, 2006). A high visibility implies that a firm is familiar to the general public, or that the public holds a certain extent of knowledge of the firm (Brooks, Highhouse, Russell and Mohr 2003). In other words, visibility only reflects the degree of familiarity to the public or the knowledge of a firm by outsiders, for instance, the ability of a firm to develop a visible brand or a high level of awareness for itself (Saxton and Dollinger 2004). Here, the central features of visibility are the depth and content of this collectively held mental image of a firm (Lange, Lee and Dai 2011: 164). Rindova, Williamson, Petkova and Sever (2005) and Barnett, Jermier and Lafferty (2006) both emphasize the importance of a high visibility as a necessity for corporate reputation. Without it, the general public is not aware of a firm's quality, and as a consequence, is unlikely to be in favor of the firm. Therefore, visibility is an indispensable condition for reputation. With a high visibility, the general public will hold a clear perception of the central attributes of this firm (Whetten and Mackey 2002), and can easily distinguish it from other firms (Deephouse and Carter 2005).

Rindova, Williamson, Petkova and Sever (2005) describe a high visibility as "prominence" and show that the degree to which a firm is widely recognized and the extent to which it stands out relative to peers significantly contribute to the price premium associated with a good reputation. On the other hand, Rhee and Valdez (2009) show that a high visibility "may determine the extent to which market audiences criticize and devalue the firm following reputation-damaging events." (2009: 155) Thus, by affecting the extent to which information on reputation-damaging events is available to and scrutinized by market audiences, a greater visibility of a firm will make it more difficult to recover. Pfarrer, Pollock and Rindova (2010) consider visibility as a necessary condition of reputation, but not a sufficient one. For instance, they propose that visibility is a precondition of two types of intangible assets--reputation and celebrity. By examining the effects of visibility during earnings surprises, they find that "visibility alone may not be a good thing" (2010:1147). Without an awareness of a firm's ability to create value or positive emotional resonance, visibility may not be beneficial to a firm.

A similar viewpoint applies to visible firms in terms of stock market performance. Investors are more likely to commit to herding behaviors for visible firms, such as trading the stock of a firm, after a positive or negative event (Trueman 1994; Graham 1999; Hong, Kubik and Solomon 2000; Pollock, Rindova and Maggitti 2008; Ramnath, Rock and Shane 2008). On the one hand, since negative events concerning visible firms are more likely to be perceived by investors due to a high media coverage, a "panic" among investors can cause a high variation of the stock prices of visible firms, in other words, a higher stock market risk. On the other hand, for the same reason, positive events concerning highly visible firms can generate a stronger positive reaction from investors. A high extent to which investors find the stock of these firms attractive will also cause a high stock price volatility. Therefore, a visible firm bears a higher risk than a less visible firm, irrespective of whether a positive or a negative event occurs. As a consequence, investors are more likely to devalue the stocks of visible firms at present, which creates a potential gap between the stocks' present price and that in the future, in other words, a potential high expected return. In sum, we propose that visible firms bear a higher stock market risk, but earn a higher expected stock return, compared to less visible firms. These predictions culminate in the following hypotheses.

Hypothesis 1a: Firms with a high degree of visibility bear a higher stock market risk than firms with a low degree of visibility.

Hypothesis 1b: Firms with a high degree of visibility earn a higher expected stock return than firms with a low degree of visibility.

2.2.3 The economic value of corporate reputation

A frequently cited definition of corporate reputation is that it is "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to its key constituents when compared to other leading rivals" (Fombrun 1996: 72). Such a generalized favorability is about evaluations of a firm as a whole, which is different from the evaluations of a firm on its ability to provide certain outputs that meet the idiosyncratic interests of certain firm constituents (Deephouse 2000; Roberts and Dowling 2002; Martins 2005; Barnett *et al.* 2006; Fischer and Reuber 2007; Highhouse, Brooks and Gregarus 2009; Love and Kraatz 2009; Bergh, Ketchen, Boyd *et al.* 2010). To achieve a high reputation, a persistent commitment to fulfill global constituents' interests in general and a consistent superior performance compared to other firms in the field is necessary (Fombrun and Shanley 1990; Fischer and Reuber 2007; Rindova, Petkova and Kotha 2007; Pfarrer *et al.* 2010).

Taking the resource based theory (Dierickx and Cool 1989; Barney 1991) as a starting point, Deephouse (2000) as well as Roberts and Dowling (2002) argue that a good reputation serves as an important asset that works in achieving a superior performance and creating a competitive advantage to a firm. They state that since reputation is built through consistent management behaviors over time, and provides information on the overall esteem associated with a firm compared to its peers, its level may signal a firm's quality in general. A firm with a good quality, signaled by a high favorability, will ultimately achieve a superior performance in different aspects. For instance, Deephouse (2000) finds that media reputation, measured by media favorableness, has a positive effect on the general profitability of a firm. Turban and Cable (2003) show that employers with a higher generalized reputation are more attractive to applicants.

Because a generalized corporate reputation, stemming from a global positive assessment, can generate positive consequences to a firm, it is particularly important in an uncertain context. For instance, Milgrom and Roberts (1986) argue that in an incomplete information setting, reputation works in attracting customers, because of the uncertainties on a firm's product quality. In the financial market,

uncertainty is a fundamental problem in investors' decisions. Therefore, the quality of a firm, signaled by the level of generalized reputation, is associated with a firm's riskiness from an information processing perspective. Supporting evidence from Mazzola, Ravasi and Gabbioneta (2006) and Gabbioneta, Ravasi and Mazzola (2007) suggests that a good reputation helps reduce the ambiguity associated with the plans of managers. This finding helps in explaining the reputation-risk relation in the stock market. Because information on firms with a high reputation is less ambiguous (Shapiro 1983; Weigelt and Camerer 1988), their behaviors are more predictable and reliable. Thus, investors will bear a lower uncertainty (i.e. a lower stock market risk) by investing in these firms with a high reputation. With respect to the expected stock return, since investors hold more confidence in these firms, they are more likely to value their present stock price high. As a consequence, the gap between the stocks' present price and that in the future is small (i.e. a lower expected return). Conversely, investors will bear a higher risk by investing in less reputed firms due to their unpredictable behaviors or unreliable commitments, and are more likely to devalue their stocks for now. So these firms may, on the contrary, earn a higher expected stock return. Therefore, we propose that firms with a high reputation bear a lower stock market risk, but earn a lower expected stock return, compared to firms with a lower reputation. These predictions lead to the following hypotheses.

Hypothesis 2a: Firms with a high reputation bear a lower stock market risk than those with a low reputation.

Hypothesis 2b: Firms with a high reputation earn a lower expected stock return than those with a low reputation.

Comparing our hypotheses with the findings of previous literature examining the relation between reputation and market-based performance, we see a mixed picture. Table 2 provides an overview of findings in the literature in terms of expected stock return and stock market risk respectively. The empirical observations on the reputation-expected stock return relation are mixed. Brown (1997) and Statman, Fisher and Anginer (2008) do not find a significant difference between the expected stock return of high-and low-reputation firms. Antunovich, Laster, and Mitnick (2000), Derwall, Guenster, Bauer and Koedijk (2005) and Kempf and Osthoff (2007) observe a significantly higher risk-adjusted expected

return of reputed firms. On the contrary, Anginer and Statman (2010) find that high-reputation firms earn a significantly lower abnormal return than the low reputation firms, in line with our conjecture in Hypothesis 2b. The results in terms of the stock market risk are relatively consistent, with the exception of Srivastava, Mclnish, and Wood (1997), who find a higher systematic risk of high-reputation firms, all the rest agree on a negative relation between reputation and stock market risk (Derwall *et al.* 2005; Brammer and Pavelin 2006; Statman *et al.* 2008; Luo and Bhattacharya 2009). Those empirical findings are consistent with our predictions in Hypothesis 2a.

2.2.4 Distinguishing the economic values of a high visibility and a good reputation

The predictions in Hypotheses 1 and 2 concern visibility and reputation respectively. Since visibility is regarded as a necessary condition for reputation to occur (Rindova *et al.* 2007; Pfarrer *et al.* 2010), or an important antecedent of reputation (Brooks, Highhouse, Russell *et al.* 2003), a firm with a good reputation is necessarily a firm with a high visibility. An ambiguity remains regarding our predictions. For instance, we predict that visible firms bear a higher stock market risk than less visible firms, while firms with a good reputation bear a lower stock market risk than less reputed firms. Yet, it is unclear how the stock market risk of a firm with a good reputation (or a bad reputation) is different from that of an less visible firm. Therefore, our next attempt is to clarify the hierarchy among these firms, and consequently, the difference of their economic values.

The role of mass communication is indispensable in establishing a firm's visibility. As mentioned by Deephouse (2000), the media both record and influence public knowledge and opinions about firms, because they control both the technology that disseminates information about firms to large audiences and the content of the information disseminated (Rindova, Pollock and Hayward 2006). The media strive to tell stories to engage their audience and to increase their audiences' desire for more information on the subject of a story (McCartney 1987). A tremendous market competition for audience attention also contributes to this reader-focused orientation of the media. On the other hand, humans have a strong need for understanding their social and physical environment. The media capture such a desire, and dramatize the activities of firms to set the agenda of public discourse and to direct the public's attention toward particular actors and issues (Rindova *et al.* 2006). In this process, both positive and negative information are in favored by media as long as the stories based on this information can raise the interests of audience

Table 2. Empirical studies on the reputation-stock market performance relation

Author	Study period	CR data	Comparison	Results	Risk adjustment
Expected Stock Return					
Brown (1997)	1982-1991	CSP of Fortune AMAC	Portfolio level: high vs low	Non-significant difference on expected return	-
Antunovich *et al.* (2000)	1983-1995	Fortune AMAC	Portfolio level: high vs low	Non-significant difference on expected returns, but significant difference on risk-adjusted returns.	Carhart (1997) four-factor model
Bauer *et al.* (2005)	1990-2001	Ethical funds (CSP)	Portfolio level: ethical funds vs conventional funds	Non-significant difference on the risk-adjusted returns.	Carhart (1997) four-factor model
Derwall *et al.* (2005)	1995-2003	Innovest Strategic Value Advisors on "eco-efficiency"	Portfolio level: high vs low	Significant higher risk-adjusted returns of "high" portfolio.	Carhart (1997) four-factor model
Anderson & Smith (2006)	1983-2005	Fortune AMAC	Portfolio level: top 10 vs S&P500 market index	Significant higher expected returns and risk-adjusted returns of Top 10 portfolio.	Carhart (1997) four-factor model
Kempf and Osthoff (2007)	1992-2003	KLD ratings	Portfolio level: 1. KLD vs CUSIP benchmark 2. high vs low	1. Significant difference on risk-adjusted returns 2. Non-significant differences only except for "Community" & "Employee Relations" screens.	Carhart (1997) four-factor model
Becchetti *et al.* (2007)	1990-2004	Domini 400 Social Index	Firm level: enters or exits the index	Significant negative abnormal returns when exit from the index	Fama and French (1993) three-factor model
Statman, Fisher and Anginer (2008)	1982-2006	Fortune AMAC	Portfolio level: high vs low	Non-significant difference on the risk-adjusted returns.	CAPM and Carhart (1997) four-factor model
Anginer and Statman (2010)	1983-2007	Fortune AMAC; Change of Fortune ratings	Portfolio level: high vs low	Significant negative abnormal returns	CAPM and Carhart (1997) four-factor model
Edmans (2011a)	1984-2009	"100 Best Companies to Work for in America"	Portfolio level: top vs Fama-French market portfolio	Significant positive abnormal returns	Carhart (1997) four-factor model
Gök and Özkaya (2011)	2003-2008	"Most Admired Companies of Turkey" by *Capital-Turkey*	Portfolio level: top 20 vs Turkish market portfolio	Significant negative abnormal returns	CAPM and Fama and French (1993) three-factor model
Market Risk					
Srivastava *et al.*	1990	Fortune AMAC	Portfolio level: high vs low	Highly rated firms bear a higher	CAPM

(1997)				systematic risk (beta).	
Derwall *et al.* (2005)	1995-2003	Innovest Strategic Value Advisors on "eco-efficiency"	Portfolio level: high vs low	"High" portfolio corresponds to a lower stock price volatility.	Carhart (1997) four-factor model
Brammer and Pavelin (2006)	2002	Management Today	Firm level: rating scores	Significant negative relation between reputation and systematic market risk	CAPM
Statman, Fisher and Anginer (2008)	1982-2006	Fortune AMAC	Portfolio level: high vs low	Highly rated firms bear lower objective and subjective risks	CAPM; Carhart (1997) four-factor model; experiment
Luo and Bhattacharya (2009)	2002-2003	CSP of Fortune AMAC	Firm level: rating scores	High CSP firms bear lower idiosyncratic risk.	Carhart (1997) four-factor model
Smith *et al.* (2010)	2005	Fortune AMAC	Firm level: Fortune rated firms vs matching firms	Fortune rated firms bear a lower stock price volatility.	Fama and French (1993) three-factor model

to a broad extent. For instance, the new mobile phone product of Apple, the iPhone5, has led to more than 2150 articles in the US and UK news between 15th of August and 15th of November, 2011 (source: Factiva). On the other hand, the BP oil spill in 2010 led to more than 3700 articles in the US and UK news, and 126 press releases produced between 20th of April and 27th of August (Schultz, Kleinnijenhuis, Oegema *et al.* 2011). Therefore, both reputed and less reputed firms have a potential to be pursued by media for dramatized stories, and thus should not differ in their visibility.

Although both reputed and less reputed firms have a high visibility, they are not necessarily better than other firms with a low visibility (i.e. less visible firms) in terms of stock market performance. Because visibility determines the extent to which market audiences criticize a firm when a crisis occurs (Rhee and Valdez 2009), a high visibility also implies more potential devaluations and damage to a firm after a negative event. Therefore, to compare the stock market performance of reputed, less reputed and less visible firms, it is necessary to identify the underlying reasons for the high visibility of the first two: In other words, what are they known for?

On the one hand, Rindova, Williamson, Petkova and Sever (2005) and Fischer and Reuber (2007) suggest that a high reputation signals future performance based on perceptions of past performance. So the actions of firms with a high reputation are more consistent with observers' expectations than those of firms with a low reputation, and reputed firms are more striving for, or capable of, fulfilling constituents' expectations. Firms with a high reputation, as a consequence, are more engaged in predictable behaviors and performance. Conversely, due to a low visibility, the behaviors and outputs of less visible firms are less predictable. Therefore, we propose that firms with a high reputation bear a lower stock market risk than less visible firms. With respect to the expected stock return, due to a higher confidence of investors in reputed firms compared to less visible firms, investors' high evaluation of the present value of these firms will result in a lower expected return. On the other hand, firms with a low reputation are more visible for their misbehaviors, incapability of fulfilling observers' expectations or a negative judgment in general (Love and Kraatz 2009), such as accounting fraud, product recalls, or environmental disasters. Compared to these firms, less visible firms may experience less negative judgments because of a lower observer expectation, and less media impact or less negative word of mouth due to a lower audience attention. Therefore, we expect a higher stock market risk for firms with a low reputation than for less visible firms. Due to such a high risk, investors are more likely to devalue the stocks of firms with a low reputation, so that these firms have a higher potential of earning a higher expected stock return than less visible firms. These predictions lead to the following hypotheses.

Hypothesis 3a: Firms with a high reputation bear a lower stock market risk than firms with a low degree of visibility.

Hypothesis 3b: Firms with a high reputation earn a lower expected stock return than firms with a low degree of visibility.

Hypothesis 4a: Firms with a low reputation bear a higher stock market risk than firms with a low degree of visibility.

Hypothesis 4b: Firms with a low reputation earn a higher expected stock return than firms with a low degree of visibility.

2.3 Data and Methods

Despite the fact that some empirical results in previous studies support part of our theoretical predictions, a systematic empirical analysis aimed at clarifying the different economic values of corporate reputation and visibility in terms of expected stock return and stock market risk is still missing. Especially, to our knowledge, there is no empirical literature comparing these firms with respect to their idiosyncratic risks, whereas the impact of idiosyncratic risk on expected stock return have been gradually confirmed (Goyal and Santa-Clara 2003; Fu 2009). Therefore, we develop an empirical framework to examine our theoretical predictions by comparing the performances of several groups of constructed portfolios. Most of the studies on reputation and stock market performance consider a portfolio approach. Because individual firms vary in fundamental characteristics, such as size and growth, which may have deterministic effects on expected stock returns (Fama and French 1992), considering firm level data leads to a difficulty in clarifying the role of reputation. By aggregating the performances of a number of firms, a portfolio approach helps mitigate the influence of other firm characteristics.

2.3.1 Comparing performances of visible and less visible portfolios

To test Hypotheses 1a and 1b, we constructed portfolios of visible and less visible firms. We considered the population consisting of firms listed in the S&P500 index, so that we can carry out a more conservative test by studying large firms only. We excluded firms from the financial industry in the sample (SIC codes starting with 6), because their stock performances are usually not comparable with other firms due to different capital structures (Fama and French 1992; Fama and French 2002). Visibility, here, is indicated by the total number of analysts' estimations per year, which is aggregated from the monthly data collected from the IBES database. Such a number captures the coverage by financial analysts of a firm. Since the main role of financial analysts is to gather information about stocks, interpret it, and pass this information to investors for their trading decisions, a high analyst coverage implies a lower information asymmetry and a higher visibility of a firm for investors (see, e.g. Best, Hodges and Lin 2011; Giraldo 2011). We formed portfolios according to firms' visibility in each year, between 2005 and 2009, and evaluated portfolio performance in the next year, between 2006 and 2010. We sorted the S&P500 firms by the number of analysts' estimations, and formed six portfolios by selecting the top and bottom 10, 20, and 30 firms respectively. In other words, the composition of each portfolio varies depending on the ranking of firms' visibility in that year.

We collected the daily stock returns of each firm from COMPUSTAT between the first trading day of 2006 and the last trading day of 2010. We aggregated the firm-level daily returns to form a portfolio return, weighted by either equal weights or firms' market values, which resulted in 12 portfolios in each year. For each portfolio, the expected stock return is calculated from the average daily return, and the total risk is measured by the variance of daily returns.

Although these two measures provide a first glance of firms' stock performance, it is necessary to further control the impacts of other pricing factors, such as the market factors (Fama and French 1992; Fama and French 1993; Carhart 1997). Therefore, we also compared the risk-adjusted expected return and the idiosyncratic risks between visible and less visible portfolios after applying several pricing factor models. The simplest risk-adjusted measure is based on the Capital Asset Pricing Model (CAPM). The CAPM assumes that stock return volatility consists of a systematic market risk and an idiosyncratic risk. Only the systematic market risk is priced in the expected stock return. In other words, theoretically, by adjusting the systematic market risk for the expected return, the expected risk-adjusted return (i.e. Jensen's alpha) should be zero (Jensen 1972). Thus, an asset with a positive risk-adjusted return is

regarded as having a better stock market performance than the market. To compare the risk-adjusted returns, we decomposed returns of the reputation portfolios into risk-adjusted return, systematic market risk and idiosyncratic risk according to the CAPM. We collected the market risk factor data from the website of Kenneth R. French, which consists of the daily risk-free rate (r_f) and the spread between the market return and the risk free rate ($R_m - r_f$) from January 2006 to December 2010. Then, we ran the following regression for each portfolio:

$$R_{p1} - r_f = \alpha_{p1} + \beta_{p1}\left(R_m - r_f\right) + \varepsilon_{p1}, \quad (1)$$

where the indexes "1" indicates the risk-adjust procedures following CAPM, and R_{p1} indicates the return of a portfolio p. The regression coefficient β_{p1} reflects the systematic market risk of the portfolio while α_{p1} indicates the risk-adjusted expected return that is not priced by the market risk. Besides the market factor, Fama and French (1993) and Carhart (1997) find that size, growth and momentum also contribute to pricing a stock value. To make the comparison of stock performance more complete, we also calculated the risk-adjusted expected returns in terms of these pricing factors. We collected the size, growth and momentum factors from the website of Kenneth R. French from January 2006 to December 2010. The corresponding regressions are

$$R_{p3} - r_f = \alpha_{p3} + \beta_{p3}\left(R_m - r_f\right) + \chi_{p3}SMB + \delta_{p3}HML + \varepsilon_{p3}, \quad (2)$$

$$R_{p4} - r_f = \alpha_{p4} + \beta_{p4}\left(R_m - r_f\right) + \chi_{p4}SMB + \delta_{p4}HML + \mu_{p4}MOMENTUM + \varepsilon_{p4}, \quad (3)$$

Where the indexes "3" and "4" indicate the risk-adjust procedures following Fama and French three-factor and Carhart four-factor models, and α_{p3} and α_{p4} indicate the risk-adjusted expected returns that are not priced by the three factors in Fama and French (1993) or by the four factors in Carhart (1997) respectively.

In contrast to the systematic market risk, the idiosyncratic risk stemming from firm or industry characteristics is not shared by the market in general (Miller and Bromiley 1990). Aaker and Jacobson (1987) find that this risk also has an influence on a firm's profitability. If managers can reduce the firm's exposure to idiosyncratic risks "that give rise to deadweight costs in a way that investors cannot diversify away, then value is added through risk management" (Godfrey, Merrill and Hansen 2009, p. 427). Goyal

and Santa-Clara (2003) and Fu (2009) confirm a positive relation between idiosyncratic volatilities and expected returns. Since the high visibility-high risk relation may also apply to idiosyncratic risk, we further compare portfolios' idiosyncratic risks, measured by the variances of ε_{p1}, ε_{p3} and ε_{p4}.

2.3.2 Comparing performances of reputed and less reputed portfolios

To test Hypothesis 2a and 2b, we constructed reputed and less reputed portfolios to proxy firms' high and low generalized favorability. A firm's reputation, here, is measured by the RepTrak Pulse score, which is an average score of four affective aspects of reputation (i.e., *Feeling*, *Trust*, *Respect*, and *Admiration*). This dataset is constructed by the Reputation Institute (RI) annually from 2006, based on a survey among general public of the biggest 600 firms' reputations worldwide (Ponzi, Fombrun and Gardberg 2011a). Because it is developed on the basis of the perceptions of a broad set of observers, it fits our conceptualization of generalized favorability--describing firms' overall appeal as a whole. As suggested by Shefrin (2001), investors facing uncertainties are inclined to consider the level of affect associated with a firm rather than a firm's characteristics, so that a company's reputation among the general public may better reflect how well a firm lives up to general social norms and expectations.

We restricted our sample to US firms to make the results comparable with that of the visibility portfolios. We matched the US firms within Pulse ranking to their stock return data according to the GVKEY code. Between 2006 and 2010, 207 US firms were listed in the Pulse ranking, and only 190 are with an available GVKEY code. We excluded firms in the financial industry, which result in a sample of 153 firms in the study period. Similar to the approach of constructing the visibility portfolios, we selected the top and bottom 10, 20, and 30 firms in the Pulse ranking to form reputed and less reputed portfolios respectively. Because data for the reputation survey is collected in January of each year, we formed the reputation portfolios from January 2006 to December 2010. The daily stock returns of each firm are collected from COMPUSTAT. To compare the stock performances of reputed and less reputed portfolios, we calculated their expected stock returns and total risks, as well as the risk-adjusted expected returns and idiosyncratic risks by applying the same approaches in model (1), (2) and (3).

2.3.3 Comparing performances among reputed, less reputed and less visible portfolios

To test Hypotheses 3 and 4, we need to control the impact of visibility first. Only if we do not observe any differences between high- and low-reputation firms in terms of visibility, we can compare high- and low-reputation firms to low-visibility firms. To do this, we used the presence of a firm in a reputation ranking as an additional proxy for visibility.

Publications about reputation rankings, among all the stories produced by media, are highly associated with a firm's visibility (Gioia and Corley 2002; Martins 2005). Examples are the Fortune Most Admired Companies studies (Stark 2002), the RepTrak (Ponzi, Fombrun and Gardberg 2011b), and the Best Companies to Work For (Kaplan and Keegan 2010). Since these rankings are published by media organizations that are regarded as authoritative sources of information about organizations, the transparency provided by reputation rankings makes firms more accountable to their corporate constituents (Rindova *et al.* 2005). As a consequence, firms listed in a ranking achieve a higher visibility compared to other firms. In addition, because media pursue stories attractive to readers, both firms with high and low reputation in these rankings are potential candidates for dramatized stories for setting the agenda of public discourse. Therefore, firms with a high or low reputation in a reputation ranking should not differ in their visibility.

We compared the total number of analyst estimations per year of firms in the Pulse ranking with those out of the ranking. Visibility is again measured by the total number of analyst estimations per year. We compared the visibility of all US firms in the Pulse ranking between 2006 and 2010 to that of the firms in the S&P500 sample, excluding those in the Pulse ranking. The S&P500 sample is restricted to the firms constantly appearing in the list in the study period for a more conservative comparison.

To compare the performances of firms with a high or low reputation to less visible firms, we used firms in the S&P500 sample excluding those in the Pulse ranking to represent less visible firms and constructed less visible portfolios based on these firms. To test Hypothesis 3a and 3b, we compared the stock performances of reputed portfolios (i.e. Top 10, Top 20 and Top 30 in the Pulse ranking) with those of less visible portfolios in terms of expected stock return, total risk, risk-adjusted expected return and idiosyncratic risk. To match the number of firms in less visible portfolios with that in reputed portfolios, we use a bootstrapping procedure with 100 iterations (see a similar approach in Deephouse and Carter 2005). Each iteration drew a random sample without replacement from less visible firms with the same

number of firms in reputed portfolio under comparison. Then, we calculated the relevant test statistic (i.e. a t- or F-statistic). With 100 iterations, the average of the 100 test statistics reflects the difference in performance between reputed portfolios and less visible portfolios. A similar approach is applied to compare the stock performance of less reputed portfolios (i.e. the bottom 10, bottom 20 and bottom 30 in the Pulse ranking) and less visible portfolios for testing Hypotheses 4a and 4b.

2.4 Results

Table 3 presents the stock performances of the visible and less visible portfolios of the entire period from 2006 to 2010[2]. Portfolios in the upper panel of the table are formed by the equal-weighted method, while those in the lower panel are formed by the market value-weighted method. We compared the differences of the stock return and the risk by a Student t-test and an F-test respectively. We expect higher total risks and idiosyncratic risks for the visible portfolios than for less visible portfolios, as predicted in Hypothesis 1a. We observe that in all six portfolios, irrespective of the number of firms in each portfolio and the portfolio constructing method, the visible portfolio bears a significantly higher total and idiosyncratic risk. In terms of the idiosyncratic risk, the results are robust to different assets pricing models. Therefore, we confirm Hypothesis 1a, which states that visible firms bear a higher stock market risk than less visible firms. With respect to Hypothesis 1b, which predicts that visible firms earn a higher expected stock return, we do not find a significant difference between visible and less visible firms. Contrary to our conjecture, the general pattern is that the visible portfolio earns a lower, albeit not significantly different, expected return. Therefore, we cannot confirm our prediction in Hypothesis 1b.

The comparison of the stock performances of reputed and less reputed portfolios is shown in Table 4. The second and third columns present the performances of reputed and less reputed portfolios respectively, while column five shows the significance of their differences. Irrespective of the weighting method, we find that reputed portfolios always bear a significantly lower total risk and idiosyncratic risk than the less reputed portfolios. Similar to the visibility portfolios, we do not observe a significant difference in expected stock return and risk-adjusted expected return either, in spite of the weak evidence

[2]Here we only report the results over the entire study period. The results in individual years are comparable, and thus are omitted here. They are available on request.

Table 3. The stock performances of the known and less visible portfolios between 2006 and 2010

	Equal Weighted 10			Equal Weighted 20			Equal Weighted 30		
Methods	**Known**	**less visible**	**Significance**	**Known**	**less visible**	**Significance**	**Known**	**less visible**	**Significance**
Expected Return	0.04170	0.04766		0.03111	0.04455		0.037608	0.047774	
Alpha (CAPM)	0.01366	0.02157		0.00259	0.01874		0.009375	0.022238*	
Alpha (FF3)	0.01021	0.01882		0.00104	0.01612		0.007370	0.019288*	
Alpha (FF4)	0.00972	0.01849		0.00113	0.01528		0.006485	0.018611	
Total Risk	3.620	2.640	***	3.500	2.440	***	3.300	2.330	***
Idiosyncratic Risk (CAPM)	0.800	0.361	***	0.532	0.227	***	0.417	0.187	***
Idiosyncratic Risk (FF3)	0.739	0.342	***	0.468	0.213	***	0.371	0.168	***
Idiosyncratic Risk (FF4)	0.739	0.342	***	0.469	0.209	***	0.367	0.166	***

	Value Weighted 10			Value Weighted 20			Value Weighted 30		
Methods	**Known**	**less visible**	**Significance**	**Known**	**less visible**	**Significance**	**Known**	**less visible**	**Significance**
Expected Return	0.0139	0.0352		0.019326	0.035033		0.029628	0.036056	
Alpha (CAPM)	-0.0125	0.0105		-0.008431	0.010218		0.001795	0.011709	
Alpha (FF3)	-0.0138	0.0108		-0.008329	0.009490		0.001668	0.010483	
Alpha (FF4)	-0.0134	0.0117		-0.007321	0.009482		0.001971	0.010765	
Total Risk	3.150	2.480	***	3.260	2.230	***	3.160	2.060	***
Idiosyncratic Risk (CAPM)	0.796	0.548	***	0.518	0.265	***	0.393	0.211	***
Idiosyncratic Risk (FF3)	0.708	0.521	***	0.434	0.257	***	0.335	0.197	***
Idiosyncratic Risk (FF4)	0.708	0.517	***	0.429	0.258	***	0.335	0.197	***

****p<0,001; **p<0,01; *p<0,05; †p<0,1*

that returns of less reputed portfolios are in general higher than those of reputed portfolios, mostly not significantly. For instance, the risk-adjusted expected returns of the equal-weighted Bottom 30 portfolio and the value-weighted Bottom 30 portfolio are significantly different from zero. Therefore, we only confirm Hypothesis 2a which states that reputed firms bear a lower stock market risk than less reputed firms.

Table 4. Comparing visibility: presence and position in the Pulse ranking

	2006	2007	2008	2009	2010
			In & Out of Pulse Ranking		
Mean_In Pulse	238.3827	225.6667	196.0236	221.3433	248.1481
N=	81	84	127	134	135
Mean_Out	200.8571	194.7806	175.7551	189.2449	217.1531
N=	196	196	196	196	196
t-value	22.913***	24.92***	28.751***	30.151***	28.690***
			In Pulse Ranking (Top 10 vs. Bottom 10)		
Mean_Top10	238.7000	225.7000	241.4000	250.8000	274.0000
Mean_Bottom10	255.1000	221.8000	205.2000	174.4000	198.0000
t-value	-0.3717	0.113	0.9358	1.8633†	1.2567
			In Pulse Ranking (Top 20 vs. Bottom 20)		
Mean_Top20	247.6500	254.1000	226.6500	251.7500	274.5500
Mean_Bottom20	234.3500	217.4500	199.0500	194.7000	237.6000
t-value	0.3737	1.0666	0.9424	1.8574†	0.9590
			In Pulse Ranking (Top 30 vs. Bottom 30)		
Mean_Top30	257.4667	257.2667	216.2667	243.0000	268.4333
Mean_Bottom30	226.0333	210.6000	181.2667	203.9667	238.4000
t-value	1.1182	1.7842†	1.4343	1.4608	0.9664

****p<0,001; **p<0,01; *p<0,05; †p<0,1*

In Table 4, we present the comparison of firms' visibility with respect to their presence and position in the Pulse ranking. The upper panel shows the visibilities of firms listed and not listed in the Pulse ranking, while the three lower panels illustrate the comparisons of three pairs of firms with a high or low reputation respectively. The means of visibility of the two groups are compared by a Welch two sample t-test. Because the Welch's test does not assume equal variances of two samples, it is a more appropriate test for comparing samples with different numbers of observations (Welch 1937; Sawilowsky 2002). We also compared the means of visibility of reputed portfolios with less reputed portfolios (i.e. the top 10, 20, 30 vs. the bottom 10, 20, 30 in the Pulse ranking) in each year. The results suggest that, in individual

years, firms in the Pulse ranking consistently earn a higher number of monthly analyst estimations, and the positive differences are significant at the 99.9% confidence interval. Conversely, when examining the difference in visibility between reputed and less reputed firms in each year, only, we do not find a significant difference no matter what the top or bottom cohorts are, except for weak evidence in 2007 and 2009 at the 90% confidence internal.

Table 5 shows the comparison of the stock performances of reputed and less visible portfolios, as well as those of less reputed and less visible portfolios, to examine the predictions in Hypotheses 3 and 4. The significance tests of the differences between reputed and less visible portfolios are presented in column six. We find that with the value-weighted method, the total risks and the idiosyncratic risks are significantly lower for reputed portfolios than for less visible firms at the 99.9% confidence interval. With the equal-weighted method, such a significant difference remains consistent for total risk. But for idiosyncratic risk, we observe some insignificant and even opposite results. For instance, for the comparison between the Top 20 reputed portfolio and less visible portfolio, the idiosyncratic risks based on the Fama French three-factor model do not show a significant difference between these two. On the other hand, the idiosyncratic risks of the Top 30 equal-weighted portfolio are significantly higher than that of less visible portfolio. The difference between the equal-weighted and value-weighted methods suggests that the latter amplifies the impacts of firms with a higher market value in the portfolio. Thus, with more weight on firms with lower market values in the equal-weighted portfolio, the influence of a high generalized favorability is weakened, which may result in the opposite difference in idiosyncratic risk. Combining these findings, we confirm our prediction in Hypothesis 3a that reputed firms bear a lower stock market risk than less visible firms. With respect to the expected stock return, we do not find a significant difference, though a general pattern is that less visible firms earn both a higher expected stock return and a higher risk-adjusted expected return. Therefore, Hypothesis 3b is not confirmed.

Regarding the difference in stock performances between less reputed and less visible portfolios, we observe some evidence supporting our prediction in Hypothesis 4a that less reputed firms bear a higher stock market risk. For instance, the risk comparison in panel A suggests that less reputed portfolios, with an equal-weighted method, always bear both a higher total risk and a higher idiosyncratic risk than less visible portfolios. In panel B with a value-weighted method, however, we only observe such a difference for the idiosyncratic risks of CAPM. The difference in the total risk is ambiguous for the portfolios constructed using a value-weighted approach. This inconsistency can again be explained by the difference between the two weighting methods. The value-weighted method emphasizes more on the

large firms, which results in weaker evidence on the total risk compared to the equal-weighted approach. Therefore, we confirm the prediction in Hypothesis 4a. With respect to expected stock return, again, we do not observe a significant difference between less reputed and less visible portfolios. Thus, Hypothesis 4b is not confirmed.

In sum, our findings suggest that the results on the risk side are in line with our predictions in all the hypotheses. We observe the lowest stock market risk for firms with the highest generalized favorability, while the least appreciated firms bear the highest stock market risk. In addition, the insignificant difference in visibility between reputed and less reputed firms tells us that a lower risk is associated with a higher reputation rather than with a higher visibility of a firm. Conversely, the results for the expected stock returns are different from our conjecture. We cannot conclude that the most reputed firms earn a lower stock return, or that the most visible firms gain a higher stock return, since we do not find any significant differences among the reputed, less reputed and less visible firms.

Table 5. The stock performances of the reputed, less reputed and less visible portfolios between 2006 and 2010

Panel A Stocks are equal weighted in the portfolios

			Equal Weighted 10			
Methods	**High reputation**	**Low reputation**	**Low visibility**	**Sig. Low – high reputation**	**Significance High rep. & Low vis.**	**Significance Low rep. - Low vis.**
Expected Return	0.031481	0.042854	0.044640			
Alpha (CAPM)	0.008733	0.014223	0.017687			
Alpha (FF3)	0.009542	0.019123	0.015702			
Alpha (FF4)	0.008048	0.019658	0.015319			
Total Risk	1.770	3.510	2.940	***	***	***
Idiosyncratic Risk (CAPM)	0.281	0.513	0.410	***	***	***
Idiosyncratic Risk (FF3)	0.279	0.447	0.384	***	***	***
Idiosyncratic Risk (FF4)	0.268	0.446	0.378	***	***	***
			Equal Weighted 20			
Methods	**High reputation**	**Low reputation**	**Low visibility**	**Sig. Low – high reputation**	**Significance High rep. & Low vis.**	**Significance Low rep. - Low vis.**
Expected Return	0.027629	0.047728	0.043996			
Alpha (CAPM)	0.003346	0.019147	0.017221			
Alpha (FF3)	0.003348	0.022321	0.015239			
Alpha (FF4)	0.002125	0.022086	0.014835			
Total Risk	2.040	3.280	2.710	***	***	***
Idiosyncratic Risk (CAPM)	0.209	0.292	0.234	***	**	***
Idiosyncratic Risk (FF3)	0.203	0.270	0.215	***		***
Idiosyncratic Risk (FF4)	0.195	0.270	0.213	***	*	***
			Equal Weighted 30			
Methods	**High reputation**	**Low reputation**	**Low visibility**	**Sig. Low – high reputation**	**Significance High rep. & Low vis.**	**Significance Low rep. - Low vis.**
Expected Return	0.031133	0.053119	0.044102			
Alpha (CAPM)	0.006244	0.025064*	0.017263			
Alpha (FF3)	0.005290	0.026854*	0.015238			
Alpha (FF4)	0.003902	0.026688*	0.014823			
Total Risk	2.170	3.090	2.670	***	***	***
Idiosyncratic Risk (CAPM)	0.191	0.259	0.177	***	*	***
Idiosyncratic Risk (FF3)	0.183	0.253	0.159	***	***	***
Idiosyncratic Risk (FF4)	0.174	0.253	0.157	***	**	***

****p<0,001; **p<0,01; *p<0,05; †p<0,1*

Panel B Stocks are value weighted in the portfolios

	Value Weighted 10					
Methods	**High reputation**	**Low reputation**	**Low visibility**	**Sig. Low – high reputation**	**Significance High rep. & Low vis.**	**Significance Low rep. - Low vis.**
Expected Return	0.023074	0.040476	0.041758			
Alpha (CAPM)	0.001371	0.014033	0.014780			
Alpha (FF3)	0.003335	0.021527	0.013692			
Alpha (FF4)	0.002915	0.024452	0.013607			
Total Risk	1.580	3.070	3.130	***	***	
Idiosyncratic Risk (CAPM)	0.298	0.695	0.578	***	***	***
Idiosyncratic Risk (FF3)	0.278	0.511	0.550	***	***	*
Idiosyncratic Risk (FF4)	0.277	0.466	0.544	***	***	***
	Value Weighted 20					
Methods	**High reputation**	**Low reputation**	**Low visibility**	**Sig. Low – high reputation**	**Significance High rep. & Low vis.**	**Significance Low rep. - Low vis.**
Expected Return	0.022415	0.039419	0.040533			
Alpha (CAPM)	-0.001678	0.013489	0.013483			
Alpha (FF3)	-0.000413	0.019634	0.012451			
Alpha (FF4)	-0.001202	0.021164	0.012309			
Total Risk	2.050	2.660	2.890	***	***	*
Idiosyncratic Risk (CAPM)	0.264	0.419	0.336	***	***	***
Idiosyncratic Risk (FF3)	0.252	0.305	0.315	***	***	
Idiosyncratic Risk (FF4)	0.249	0.293	0.312	***	***	
	Value Weighted 30					
Methods	**High reputation**	**Low reputation**	**Low visibility**	**Sig. Low – high reputation**	**Significance High rep. & Low vis.**	**Significance Low rep. - Low vis.**
Expected Return	0.028016	0.041568	0.039892			
Alpha (CAPM)	0.004491	0.015776	0.012859			
Alpha (FF3)	0.005369	0.021204	0.011663			
Alpha (FF4)	0.004923	0.022678*	0.011487			
Total Risk	1.850	2.540	2.800	***	***	**
Idiosyncratic Risk (CAPM)	0.186	0.334	0.259	***	***	***
Idiosyncratic Risk (FF3)	0.171	0.244	0.239	***	***	
Idiosyncratic Risk (FF4)	0.170	0.233	0.237	***	***	

****p<0,001; **p<0,01; *p<0,05; †p<0,1*

2.5 Discussion

By clarifying the effects of visibility and reputation on stock performance, we distinguish their specific economic outcomes in terms of enhancing or decreasing firms' competitiveness in the equity market. On the one hand, we find that simply achieving a high visibility does not generate any economic value to a firm, since it is accompanied by a high stock market risk but not by a correspondingly higher expected stock return. The results are robust irrespective of whether high visibility refers to a high familiarity to financial analysts or to a high general awareness in the general public. This finding is in line with the viewpoint of Pfarrer, Pollock and Rindova (2010) that visibility alone cannot form a firm's reputation. It also supports the findings by Deephouse (2000) and Carter (2005) that it is the positive tonality of media reports, rather than the absolute number of these reports (i.e. visibility), which helps in improving firms' profitability and revenue.

On the other hand, our results suggest that gaining a high reputation endows a firm with a lower stock market risk, but not necessarily a lower expected stock return. In other words, investing in the stock of a reputed firm may earn a competitive return but simultaneously bear a lower risk. This finding challenges the prediction in the classical finance theory that a high expected return is a compensation of a high risk (Fama and French 1992). However, it is supported by the behavioral finance theory, which departs from a broader social science perspective (Shiller 2003). For instance, Shefrin (2001) and Helm (2007) argue that among a large amount of information about firms, investors are aware of the social aspect of a firm when making investment decisions, such as a firm's reputation. Therefore, investors rely on the representativeness-based heuristic that stocks of good companies are representative of good stocks. The empirical observations of Shefrin (1999) and Ganzach (2000) also confirm the low risk-high expected return relation of high reputation firms.

Especially, we contribute to literature by examining the idiosyncratic risk-reduction potential of visibility and reputation, an important aspect ignored in existing management literature. Although financial researchers and investors have gradually realized the importance of idiosyncratic risk on pricing a firm's stock price (Aaker and Jacobson 1994; Goyal and Santa-Clara 2003; Fu 2009), and there is a rapidly expanding stream of research in finance relating it to various aspects (Xu and Malkiel 2003; Wei and Zhang 2006; Ferreira and Laux 2007), firm-idiosyncratic risk has hardly been associated to a firm's reputation management before. Our robust results on a negative relation between reputation and

idiosyncratic risk support the importance of reputation management for risk-reduction. It also serves as an effective communication instrument between managers and investors.

A potential explanation on the outperformance of the high reputation firms compared to the less visible firms is the size effect. Because the reputation portfolios are constructed by firms among the global 600 largest firms, the better performance of the reputation portfolio may be attributed to a larger firm size. However, since firms selected for less visible portfolios are as large as those high reputation firms[3], it seems unlikely that the differences between the reputation portfolio and the S&P500 can be attributed to a size effect (cf. Roberts and Dowling (2002)). Therefore, we argue that the Pulse ranking matters, not simply because those firms participating in the rankings are large, but because they achieved a high favorability among the general public.

Given our findings for visibility and reputation in terms of stock performance, an important topic for future research is to understand investors' perceptions of firms' generalized favorability. Although the "pleasing character traits" that constitute generalized favorability (Love and Kraatz 2009) might be relatively universal in nature, expectations for desirable corporate behavior often differ between cultures, and therefore may differ depending upon the set of perceivers sampled (Lange *et al.* 2011). Therefore, a global favorability developed from the perceptions of the general public may misrepresent those corporate behaviors which are desirable for investors within a certain market. Investigating the dimensions of reputation relevant for investors, similarly to what Mazzola, Ravasi and Gabbioneta (2006) did for financial analysts, will shed light on the psychological explanations for reputation formation and its economic value to investors.

There are potential limitations to this study that should be addressed in future research as well. Firstly, our empirical portfolio analysis is based on a study period over 5 years due to data availability, which is relatively short for examining variations in portfolio performance over time (Statman *et al.* 2008; Anginer and Statman 2010; Edmans 2011b). With a longer period, we would be able to identify the effects of other variables, such as market conditions, on the reputation-stock performance relation. Secondly, with respect to clarifying the role of reputation rankings, the test is only based on the Pulse ranking. Although the findings support our predictions, a more comprehensive analysis on multiple rankings may contribute to testing the robustness of these results. Last but not the least, we only discussed

[3] The less visible portfolios are constructed from firms listed in the S&P500 index, which are large-cap common stocks actively traded on either NYSE or NASDA.

the antecedents of visibility and generalized favorability from a theoretical perspective, but did not empirically test them. Incorporating such an approach helps identify the values of different antecedents of visibility or reputation, which will make the distinction between being known and being appreciated a more complete story.

Chapter 2

CHAPTER 3

STUDY 2 — CORPORATE SOCIAL PERFORMANCE AND CORPORATE FINANCIAL PERFORMANCE: THE MEDIATING ROLES OF CORPORATE REPUTATIONS AMONG FINANCIAL AND PUBLIC STAKEHOLDERS

Abstract

The goal of this paper is to investigate whether and how a firm that engages in different kinds of corporate social performance can create a favourable corporate reputation among its stakeholders, and as a result achieve a good financial performance. Building on stakeholder theory, we distinguish two types of reputation – public reputation and financial reputation. We argue that corporate social performance activities affect these two reputations differently among public and financial stakeholders. In addition, we empirically test the relationship among different types of corporate social performance, public reputation, financial reputation and financial performance. Our results suggest that: (1) Carroll's four types of corporate social performance responsibilities (i.e. economic, legal, ethical and philanthropic) affect financial performance differently, (2) their effects are mediated by public reputation and financial reputation, and (3) public reputation affects financial performance partially through its effect on financial reputation. Our findings have two managerial implications. First, it provides guidelines for mangers on choosing to emphasize certain CSP initiatives in their communication, depending on the specific stakeholder group they are targeting. Second, to influence the company's reputation among financial stakeholders, managers can also strive to stimulate a positive perception among other stakeholders, such as the general public. This generates more flexibility for managers in their stakeholder management.

Keywords: *reputation, corporate social performance, stakeholder, financial performance*

Chapter 3

3.1 Introduction

Firms, although primarily aimed at maximizing the value of their financial stakeholders (i.e., shareholders and investors), also strive for building a strong corporate reputation, which might lead to sustainable shareholder value in the long run (Hillman and Keim 2001; Roberts and Dowling 2002). For instance, firms such as J&J, Apple and Google, who featured in *Built to Last* and *Good to Great* (Collins 2001), provide compelling examples of how strong reputations are associated with value creation for financial stakeholders. They suggest the importance of values and relationships with non-financial stakeholders as a critical part of the ongoing success for these corporations (see e.g. Freeman, Wicks and Parmar 2004). The core question is, then, how the perceptions of a company among other stakeholders influence shareholder value.

In the corporate social performance (CSP) literature, a good CSP is argued to be an effective means for establishing a good overall reputation, which eventually benefits the corporate financial performance (see, e.g. Orlitzky, Schmidt and Rynes 2003). Because an organization's CSP helps form a positive perception among different external parties, it may result in supporting behaviors by these stakeholders towards the organization (Fombrun and Shanley 1990; Waddock and Graves 1997; Greening and Turban 2000). However, some scholars suggest that CSP conflicts with the value maximization of a firm, since these efforts are not guided by the sole purpose of increasing the value of financial stakeholders, and they may represent a pure corporate expenditure that diverts valuable resources to other areas unrelated to the operational business (Friedman 1970; Aupperle, Carroll and Hatfield 1985; McWilliams and Siegel 1997; Jensen 2002). Because the expenditures on socially responsible commitments raise a firm's costs, they are against shareholders' interests of maximising firm value (McWilliams and Siegel 1997; Jensen 2002). Therefore, financial stakeholders may regard CSP as distracting from a firm's financial performance, and may not appreciate it. Conversely, the public stakeholder group, such as governments and communities, might regard the same CSP expenditures as a firm's commitment to conform with social norms (Brammer and Millington 2005; Godfrey, Merrill and Hansen 2009) . Due to the limited resources a firm can access, gaining a high firm value and living up to social norms can often not be achieved simultaneously. A firm, as a consequence, may only be able to fulfil the interests of some groups of stakeholders, but not others, when committing to CSP (e.g. Mitchell, Agle and Wood 1997). The potential conflicting expectations between public and financial stakeholders raise our interest in clarifying the impact of their interactions in the relationship between CSP and financial performance.

Public reputation and financial reputation

The continuing debate on the financial benefits of CSP may be attributed to the fact that it is treated as a single construct. One way to reconcile this inconclusiveness is to classify varying types of CSP, and discuss their separate influences on firms' reputations among different stakeholders. This paper attempts to answer the question whether establishing a good reputation among public and financial stakeholders through engaging in different types of CSP can achieve a good financial performance. We follow the framework of Hillman and Keim (2001) to distinguish these two stakeholder groups in determining the effects of CSP. However, we go beyond their work by identifying the roles of corporate reputations amongst public and financial stakeholders in the CSP—corporate financial performance (CFP) linkage.

3.2 Theory

The theory development in this paper consists of two steps. We first employ the stakeholder theory to classify two groups of stakeholders, financial stakeholders and public stakeholders (Clarkson 1995). As mentioned, financial stakeholders usually regard financial performance as the primary goal of a firm, and may consider CSP as distracting from such a target. In contrast, public stakeholders may also take social performance of a firm into account, besides its financial performance. As a consequence, these two groups of stakeholders may hold a conflicting view with respect to the CSP initiatives. However, because the intention of a firm in conforming with social norms, which are considered by public stakeholders, may suggest its willingness to fulfil financial stakeholders' interests as well (Hillman and Keim 2001), financial stakeholders may also consider public perceptions as a signal of a firm's goodness. This is in line with the finding by Barnett (2007) that stakeholder relations may contribute to explaining the mixed relationship between CSP and CFP. Therefore, we examine the relationship between a firm's reputation among financial stakeholders and its reputation among public stakeholders, as well as the mediating role of both types of reputation in the CSP—CFP linkage. Second, to obtain a better understanding of establishing these perceptions via CSP initiatives, we incorporate Carroll's (1991) classification of CSP, to distinguish the impacts of different types of CSP on reputations among financial and public stakeholders.

3.2.1 Distinguishing corporate reputations among financial and public stakeholders

A corporate reputation consists of stakeholders' beliefs about what to expect from an organization in the future, which Lange, Lee and Dai (2011) label as "being known for something". This definition includes two aspects: The perceived expectations about the firm's behaviour and outputs in the future among different stakeholder groups, and the predictions whether and to what extent the focal organization will meet these expectations.

Corporate reputation, in the sense of being known for something, matters due to the existence of information asymmetry between an organization and its perceivers (Healy and Palepu 2001). Because stakeholders can only obtain limited information about organizational capabilities and intentions, their ability to predict future firm outputs is hampered (Rindova, Williamson, Petkova *et al.* 2005). Since a reputation of being known for something consists of subjective perceptions held by a specific group of stakeholders with respect to the likelihood of desired behaviors and outputs from the firm in the future (Deutsch and Ross 2003), it plays a specific role in resolving the information asymmetry problem. Based on the past behaviors of a firm, stakeholders can estimate the behavior of a firm and form their expectations on the likelihood of desired firm behavior in the future. These expectations are summarized in the reputation of being known for something, and signal the intention and capability of a firm to serve the interests of its stakeholders (Rindova, Williamson, Petkova *et al.* 2005; Boyd, Bergh and Ketchen 2010; Pfarrer, Pollock and Rindova 2010).

The fact that stakeholders may have different beliefs or expectations regarding an organization's future leads to the distinction of reputations among particular stakeholder groups. As suggested by Lange *et al.*, "an organization's external observers have varying interests, and therefore are attuned to different valued organization outcomes" (2011: 164). In other words, because stakeholders have different exchange relationships with an organization, their expectations regarding the organization's behavior may also vary. For instance, financial investors and environmental activists may value a firm's commitment to conforming to social norms differently. As a consequence, an organization's reputation among stakeholder groups may vary substantially. Corporate reputation can be regarded as a result of evaluations by a certain stakeholder group regarding the likelihood that a firm can meet its expectation.

To distinguish a firm's reputations among stakeholders, we employ the stakeholder theory discussed by Clarkson (1995). He defines stakeholders as "persons or groups that have, or claim,

ownership, rights, or interests in a corporate and its activities, past, present, or future" (1995: 106). He identifies two groups of primary stakeholders: key stakeholders and the public stakeholders. Key stakeholders are those without whose continuing participation the firm cannot survive as a going concern. They include shareholders and investors, customers, employees and suppliers. A corporation's survival and continuing success depends on its managers' capability to satisfy the expectations of its key stakeholders. A failure to fulfil their interests will result in the failure of that corporate system.

As a group of key stakeholders, shareholders and investors are sensitive to the trustworthiness of corporate leaders, the credibility of corporate claims and the proper functioning internal control systems (Mazzola, Ravasi and Gabbioneta 2006). Therefore, to establish and retain trust among shareholders and investors, an organization needs to address the expectations of the financial community regarding continuous growth, wealth creation and appropriate governance practices. In other words, reducing information asymmetry with respect to these fundamental issues can improve a firm's reputation among shareholders and investors.

Public stakeholder groups are "the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due" (Clarkson 1995: 106). Although public stakeholders are less crucial for a firm's survival than key stakeholders, they are still important for a corporation's survival. They can cause significant damages to the firm (Freeman, Wicks and Parmar 2004), but can also improve a firm's financial performance (Shefrin and Statman 1995). In addition, the interests of public stakeholders may be opposed to those of key stakeholders, or to the policies adopted by the firm to maximize its value creation activities (Hillman and Keim 2001; Maignan and Ralston 2002). For instance, in some societies, governments support corporate philanthropy, because it helps reduce governmental burdens (Wang and Qian 2011). However, the negative net impact of corporate philanthropy on corporate financial performance may not be appealing for financial stakeholders because it may represent a corporate expenditure which diverts valuable resources to areas unrelated to the firm's core business. More generally speaking, public stakeholders expect the businesses activities of a firm to conform to social norms, which can deviate from the expectations of economic value pursued by shareholders. Therefore, to establish and retain trust and consensus among public stakeholders, an organization needs to express its continuous to social norms. If the information asymmetry problem is mitigated in this aspect, the organization will have a favourable reputation among the general public (MacMillan, Money and Downing 2002; Ponzi, Fombrun and Gardberg 2011).

Chapter 3

The distinction between the expectations of financial stakeholders and those of public stakeholders leads to two different corporate reputations among the two groups. However, the conflicting interests between the financial and public stakeholders may result in an obstacle for a firm to allocate limited resources to match all their expectations. As a consequence, sometimes firms may only be able to serve the interests of certain stakeholders and sometimes one group may benefit at the expense of another group.

Although the expectations of financial and public stakeholder groups are not always identical, we argue that a company's reputation among the general public can influence its reputation among financial stakeholders, and that an effective management of public stakeholders can lead to improved shareholder value. According to behavioral finance theory, shareholders and investors do not necessarily use firm characteristics to form their judgements consciously (Shefrin and Statman 1995; Shefrin and Statman 2000). Instead, they are aware of the social aspects of a firm, and tend to assume that good investment opportunities stem from companies with a favorable public perception (Statman, Fisher and Anginer 2008). Especially for complex investment decisions, investors may weigh the favorability of reputation among the public more heavily than technical financial indicators (MacGregor, Slovic, Dreman *et al.* 2000). For instance, by conducting two experiments among investors (i.e. high end-worth clients of an investment company), Statman, Fisher and Anginer (2008) find that these investors not only rate reputable firms as good investments, but also expect both a high-future-return and a low-risk of investing in reputable firms.

The willingness of a firm to serve its stakeholders in general would indicate its willingness to fulfil shareholders' interests (Hillman and Keim 2001). If the expectations of other key and public stakeholders are satisfied, financial stakeholders are also likely to benefit. Since a reputation among public stakeholders reflects a firm's evaluations by the general public, investors would consider it as a signal of a firm's intention to serve the interests of its stakeholders in general, as well as the interests of its financial stakeholders. Therefore, the company's reputation among the general public would influence the formation of investors' perceptions. Indeed, Helm (2007) shows that a favorable public perception improves investors' loyalty. Our reasoning leads to the following hypothesis.

Hypothesis 1: A higher reputation of a firm among the general public leads to a higher reputation of the firm among shareholders and investors.

3.2.2 The impacts of corporate reputations among financial and public stakeholders on CFP

Because corporate reputations among financial and public stakeholders contribute to reducing information asymmetries between a firm and its stakeholders, we would expect a positive impact of these reputations on a firm's CFP. Although the reputation between reputation and CFP has been intensively studied in marketing and strategy (e.g., Deephouse 1997; Roberts and Dowling 2002), empirical evidence has been rather conflicting (for a review, see de la Fuente Sabate and de Quevedo Puente 2003). For example, some studies (e.g., McGuire, Schneeweis and Branch 1990; Smith, Smith and Wang 2011) find a positive link between reputation and CFP, whereas others (e.g., Fryxell and Wang 1994; Rose and Thomsen 2004; Deephouse and Carter 2005) find a negative link or no link at all. Thus, de la Fuente Sabate and de Quevedo Puente (2003) conclude that the evidence on the relationship between reputation and CFP is mixed, and needs further examination.

As mentioned, we argue that investors consider public perception as a signal of the overall quality of a firm. Therefore, we would expect that corporate reputation among shareholders and investors mediates the relationship between corporate reputation among the public and a firm's CFP. Nevertheless, such a mediation effect may not capture the full impact of public reputation, because of the different types of information asymmetries that are reduced by the two distinctive reputations. On the one hand, as shareholders and investors are primarily interested in fundamental concerns, i.e., the proper functioning of the profit-generating activities, the information asymmetry problem is usually not so big because firms and its shareholders and investors communicate effectively on these issues (Healy and Palepu 2001). On the other hand, shareholders and investors, and public shareholders may all face the same information asymmetry problem with regard to broader company concerns, i.e. other activities beyond the proper functioning of the profit-generating activities of a firm, even though the interests of shareholders and investors on these issues may be different than those of public stakeholders. For instance, there may be a higher degree of information asymmetry among financial stakeholders and public stakeholders about a firm's philanthropic strategy, because this strategy is most related to top management beliefs and values (Buchholtz, Lubatkin and O'Neill 1999), which is likely to stimulate agency problems (Jensen 1986). However, the consistency of this strategy with social norms may result in positive perceptions among the general public, and the additional corporate expenditures may lead to negative perceptions among

financial stakeholders. In contrast, public stakeholders suffer from information asymmetry problems on both fundamental and broader concerns due to a remote connection with the firm's day-to-day opeartions.

Therefore, we hypothesize two different pathways through which a favourable reputation among the public is linked to a good CFP. The first entails that a favorable public reputation, which helps to reduce information asymmetry about broader societal concerns, may lead to positive reactions among both the financial and public stakeholders, and consequently result in a better CFP. In this pathway, the impact of a firm's reputation among the public would be mediated by the firm's reputation among shareholders and investors. The second pathway entails that, because a good reputation among the public helps to reduce information asymmetry about fundamental concerns among the general public, it may result in supportive behaviors of public stakeholders, such as purchasing the firm's products by customers or increased willingness of suppliers to contract with the firm, which lead to a good CFP directly. In this pathway, the impact of public reputation on CFP would not be mediated by the reputation among shareholders and investors. To conclude, we predict that the impact of public reputation on CFP is partially mediated by the reputation perceived among shareholders. This prediction culminates in Hypothesis 2.

Hypothesis 2: A higher reputation of a firm among the general public leads to a higher CFP of the firm, which is partially mediated by the reputation among shareholders and investors.

3.2.3 Establishing a positive reputation with a good CSP

Many scholars have argued that a firm's decisions regarding CSP can be made strategically to establish a firm's reputation, as well as to increase the value of its "moral capital", which eventually leads to a good CFP (Waddock and Graves 1997; Greening and Turban 2000; Orlitzky, Schmidt and Rynes 2003; Luo and Bhattacharya 2006). After distinguishing different reputations among stakeholder groups, we investigate different types of CSP that help establish these distinct reputations.

There are various definitions of CSP in the literature (see Carroll 1999). In this study, we use the stakeholder definition of CSP, because it is in line with our focus on the impact of CSP on reputation

from a stakeholder's perspective. According to this definition, CSP consists of "behaviors [aligned] with the norms and demands embraced by their main stakeholders" (Maignan and Ferrell 2004, p. 6). It implies that the aims of CSP activities serve the interests of various stakeholders of a firm, rather than improving social welfare as a whole (Clarkson 1995; Agarwal and Berens 2009). Due to different demands by various stakeholders, certain CSP activities may be perceived positively by some stakeholders, but negatively by others. Therefore, a classification of CSP is indispensable to conceptualize the effect of CSP on reputation.

Several studies have contributed to identifying CSP activities (Carroll 1979; Carroll 1991; Schwartz and Carroll 2003; Porter and Kramer 2006; Kourula and Halme 2008; Halme and Laurila 2009). Porter and Kramer (2006) argue that to fulfil the "triple bottom line" of economic, social and environmental performances, a firm needs to secure long-term economic performance by avoiding short-term behaviour that is socially detrimental or environmentally wasteful. They categorize CSP into responsive and strategic CSPs. The former refers to generic social impacts, while the latter relates to the social dimensions of the firm's competitive context. However, since their classification is not associated with stakeholder management, it does not closely match with our intention to distinguish the interests of financial and public stakeholders. A similar problem appears in the classifications of Kourula and Halme (2008) and Halme and Laurila (2009). They both categorize CSP into three types, according to its relationship to the firm's core business, the target of responsibility actions, and the benefits expected from CSP activities. Philanthropy includes charity, sponsorships, and employee voluntarism, integration refers to conducting existing business operations more responsibly, while innovation is dedicated to developing new business models for solving social and environmental problems. Their classification, however, is not closely related to stakeholder management, either. Due to the potential mismatch of these studies with our research interests, we decide to follow the classic framework developed in Carroll (1991) and to classify four groups of CSP activities, which are most closely associated with stakeholder management.

Carroll (1991) categorizes social responsibilities into four groups: economic, legal, ethical and philanthropic responsibilities. Economic responsibility refers to producing products and services in line with the needs of a society, and to sell them at a profit. It is the first and foremost responsibility. Legal responsibility refers to the laws and regulations the firm must adhere to. Ethical responsibility suggests that society expects business to fulfil its economic mission within the framework of social norms. Ethical activities are not necessarily codified into law. Philanthropic responsibility refers to voluntary activities (e.g. philanthropic contributions), about which society has no clear-cut message for business. Carroll's

four-part model is recognized as both comprehensive and integrative by numerous theorists and empirical researchers (e.g. Clarkson 1995; McWilliams and Siegel 1997; Hillman and Keim 2001; Maignan and Ferrell 2003). "The strength of its influence can best be judged by its longevity and that of its progeny" (Clarkson 1995, p. 94).

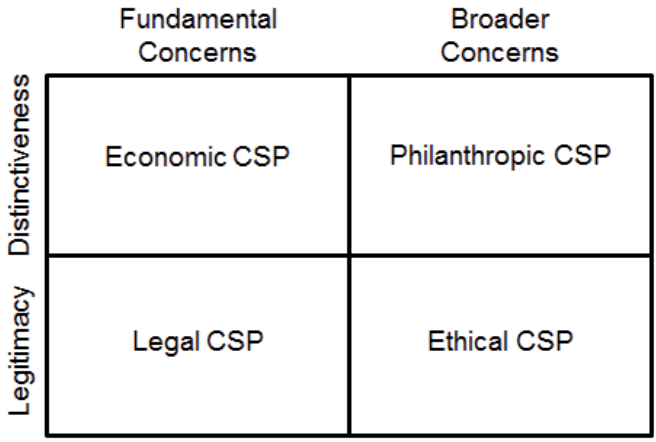
Although the four domains in Carroll's model do not differ in terms of how advanced they are (Schwartz and Carroll 2003), they do refer to distinct activities aligned with the norms embraced by stakeholders. On the one hand, having a good CSP in each domain may help to reduce a particular information asymmetry for a specific group of stakeholders. On the other hand, for each domain, stakeholders may have distinct preferences for investing in specific socially responsible activities (Clarkson 1995). Using the distinction between the stakeholders' expectations and the difference between distinctiveness and legitimacy, we categorize the four CSP domains into a two-by-two matrix as presented in Figure 1.

The distinct positions of the four CSP domains in the matrix suggest that they contribute to influencing financial and public stakeholders in different ways. We argue that the economic and legal CSP are a firm's fundamental concerns. Economic CSP can be considered a fundamental responsibility because a firm is expected to take care of its own survival and well-being. It addresses the demand of primary stakeholders for sound business operations (Maignan and Ferrell 2003). Legal CSP is also considered a fundamental responsibility. A firm must comply with federal, state, and local jurisdictions, or with legal principles as developed in case law (Schwartz and Carroll 2003). Therefore, both economic and legal responsiveness contribute to the proper functioning of the profit-generating activities of a firm. Having a good CSP in these two domains thus helps to reduce the information asymmetry related to fundamental concerns, and consequently leads to a good reputation among the public stakeholders.

Conversely, the ethical and philanthropic domains capture a broader range of activities beyond the "minimum ethical standards" (Brammer and Millington 2005; Godfrey 2005). Thus, they help to reduce the information asymmetry regarding broader concerns, which have an impact on both the public and financial stakeholders. Consequently, CSP in these two domains can affect reputations among public and financial stakeholders. However, the impact may be different because the two groups have different interests. The relationship is clear for public stakeholders: having "a good CSP" in the ethical and philanthropic domains is in their interest and in line with social norms, and will thus result in positive perceptions among these stakeholders. The impact is different for financial stakeholders: having "a good

CSP" in these two domains may be perceived as a corporate expenditure which diverts valuable resources from a firm's core business and may result in a negative reputation among shareholders and investors (see, e.g. Wright and Ferris 1997).

Figure 1. An explanation of Carroll's four-part model from a stakeholder's perspective



So far, we have distinguished the domains of CSP in terms of the interests of different stakeholder groups. We also argue that "a good CSP" can be defined differently for each of the four domains. Some CSP activities are aimed at creating legitimacy for the company, while others focus on creating distinctiveness. Distinctiveness corresponds to relative standing or desirability (Shrum and Wuthnow 1988). Deephouse (2000) argues that the unique and relative position of an organization amongst its counterparts is essential in this concept. Firms commit to distinctive behavior, not because it is required by society, but because it can enhance a firm's status and achieve a competitive advantage (Deephouse and Carter 2005). For instance, strengthening product quality and R&D (i.e. economic CSP), discussed by Luo and Bhattacharya (2006), and involvement in philanthropic activities as discussed by Wang and Qian (2011) may both fall in this category. Focusing on maximizing profitability and market value, an economic activity (e.g. to improve the quality of existing products/services or to generate new products/services innovatively) helps a firm to distinguish itself from its peers by influencing customers'

perceptions of the firm's products or services (Brown and Dacin 1997; Luo and Bhattacharya 2006), and by demonstrating the firm's future growth potential (Mackey, Mackey and Barney 2007). Philanthropic contributions to social and charitable causes not only suggest the potential financial strength of a firm, but also show the willingness of management to meet a range of social justifications (Lerner and Fryxell 1994; Buchholtz, Lubatkin and O'Neill 1999). Therefore, strategic philanthropy can enhance a firm's reputation (Porter and Kramer 2002). We conclude that "a good CSP" refers to a firm's distinctive behaviour to enhance positive economic and philanthropic initiatives.

To summarize, engaging in positive activities in the economic and philanthropic domains helps establish a positive reputation among public stakeholders. These predictions lead to Hypotheses 3a and 4a. However, engaging in positive activities in the philanthropic domain may lead to negative perceptions among financial stakeholders (i.e., a negative reputation) because of expenditure concerns. This prediction leads to Hypotheses 3a through 3e.

Hypothesis 3a: Positive economic CSP leads to positive perceptions among public stakeholders.

Hypothesis 3b: Corporate reputation among public stakeholders mediates the positive impact of economic CSP on CFP.

Hypothesis 3c: Positive philanthropic CSP leads to positive perceptions among public stakeholders.

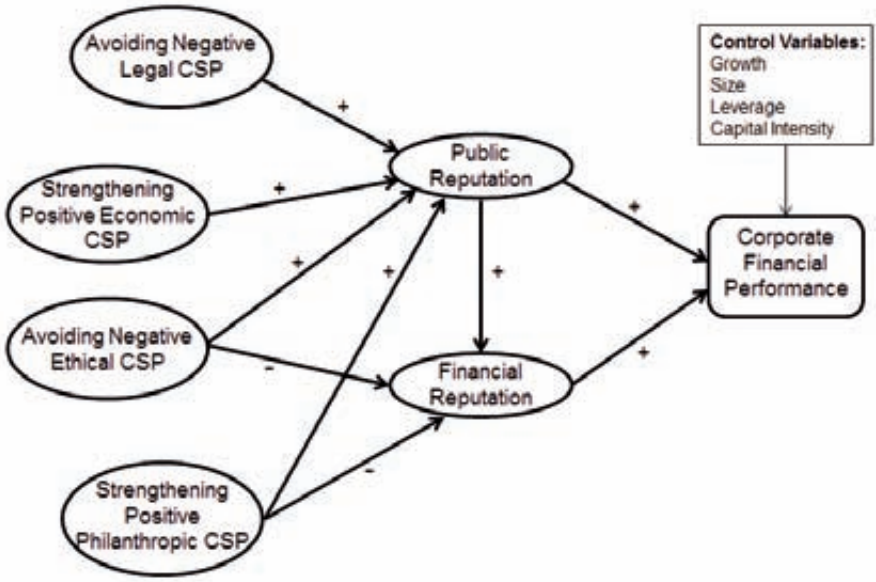
Hypothesis 3d: Corporate reputation among public stakeholders mediates the positive impact of philanthropic CSP on CFP.

Hypothesis 3e: Positive philanthropic CSP leads to negative perceptions among financial stakeholders.

In contrast to distinctiveness, Ruef and Scott (1988) suggest that legitimacy refers to the normative rules, regulative processes and cognitive meanings that organizations must conform to. As a consequence, some expectations, either explicit or implicit, can be set by stakeholders (DiMaggio and Powell 1983). With respect to CSP, Schwartz and Carroll (2003) emphasize the legal and ethical

expectations mandated and expected by society, which implies that the avoidance of litigation or unethical activities would be applauded, and recognized as legitimate CSP. For instance, installing a legally required anti-pollution device appears rational and prudent to the social system and is, therefore, considered acceptable by society. Because legitimacy implies complying with the social norm, a "good CSP" in this respect refers to the avoidance of negative activities in the legal and ethical domains.

Figure 2: Research model



To summarize, avoiding negative activities in the legal and ethical domains helps promote a positive reputation among public stakeholders. These predictions lead to Hypotheses 4a through 4d. However, avoiding negative activities in the ethical domain may lead to negative perceptions (i.e., a negative reputation) among financial stakeholders because of expenditure concerns. This prediction leads to Hypothesis 4e. The conceptual model is presented in Figure 2.

Hypothesis 4a: Avoiding negative legal CSP leads to positive perceptions among public stakeholders.

Hypothesis 4b: Corporate reputation among public stakeholders mediates the positive impact of avoiding negative legal CSP on CFP.

Hypothesis 4c: Avoiding negative ethical CSP leads to positive perceptions among public stakeholders.

Hypothesis 4d: Corporate reputation among public stakeholders mediates the positive impact of avoiding negative ethical CSP on CFP.

Hypothesis 4e: Avoiding negative ethical CSP leads to negative perceptions among financial stakeholders.

3.3 Data and Variable Construction

To test the hypotheses, we collected the secondary data from multiple archival sources: COMPUSTAT, the Fortune America's Most Admired Corporations (FAMA) survey, the Pulse Scores provided by the Reputation Institute, and CSP ratings provided by Kinder, Lindenberg, Domini and Company (KLD), which are described in this section. We also present our variables, such as cash flow, economic and philanthropic strengths, and legal and ethical concerns.

3.3.1 Measuring corporate reputation

Our conceptual model implies the necessity of empirically distinguishing corporate reputation among financial stakeholders and corporate reputation among public stakeholders. We employed the FAMA and the Pulse Score to serve as proxies for these two types of reputations, respectively. FAMA provides a comprehensive and large-scale survey data set to measure the corporate reputation of publicly traded firms in the US. It has been employed by many reputation and CSP studies in literature (e.g. Luo and Bhattacharya 2006; Pfarrer, Pollock and Rindova 2010). More specifically, in its annual ranking of the United States' most admired corporations, FAMA polls more than 10,000 financial analysts, senior

executives, and Wall Street investors from more than 580 large companies. FAMA's survey partners, the Hay Group, ask these respondents to rate firms in their own industry on eight criteria, from investment value to social responsibility. An average rating is computed based on these eight dimensions to represent the corporate reputation of each firm. The rating ranges from 0 to 10, with 10 as the most favorable rating. The reliability and validity of this data has been examined, for instance, by Fombrun and Shanley (1990) and Houston and Johnson (2000). Because the respondents of the FAMA are mainly financial stakeholders, it is an appropriate indicator of reputation among shareholders and investors in this study (for a discussion about the sample's representativeness for financial stakeholders, see e.g., Brown and Perry 1994). Following the work of Luo and Bhattacharya (2006), we used the ratings of FAMA for each firm from 2005 through 2009, published between 2006 and 2010 due to a one-year lag in print.

Conversely, we used the Pulse Score provided by the Reputation Institute (RI) to represent corporate reputation among the general public. The RI is a management consultancy company founded in 1997 and operates in thirty countries. It conducts an annual online survey between January and February to measure the corporate reputations of companies in 29 countries, starting from 2001. Around 60,000 general public respondents participate in the survey annually. The survey is based on a set of questions posed to respondents familiar with a company, and the answers are used to create scores of the four underlying reputation dimensions: *Trust*, *Feeling*, *Esteem* and *Admire & Respect* on a scale ranging from 0 to 100, with 100 as the most favorable rating. The Reputation Institute reports the *Pulse Score*, which is computed as the mean of the four dimensions, as an indicator of the overall reputation of a company. The topline results are published annually in *Forbes* as a ranking of "The World's Most Respected Companies". Ponzi *et al.* (2011) have reported evidence of reliability and validity of this data source. To match the FAMA data, we used the Pulse Score for the U.S. firms from 2005 through 2009, published between 2006 and 2010 due to a one-year lag in print.

3.3.2 Measuring corporate financial performance

Studies examining the relationship between reputation and CFP mainly focus on accounting-based profitability. However, such a proxy of financial performance does not fully reflect the realities of a firm's successfulness in value creation (Rust, Lemon and Zeithaml 2004). For instance, a firm may be notionally profitable but may generate little operational cash. A shortage of cash, even while the firm is

profitable, may result in a failure of the firm due to a lack of business liquidity. In contrast, another financial indicator, cash flows, is better at revealing the full picture of a firm's profitability and growth potential by capturing the liquidity aspect (Neill, Schaefer, Bahnson *et al.* 1991; Sloan 1996). Several studies have shown that CSP has a positive effect on cash flows (Russo and Fouts 1997; Waddock and Graves 1997). Gibbs (1993) find that cash flows also unfolds the potential of a firm encountering an agency problem (e.g. see Jensen 1986).

Because of the advantages of cash flows, compared to accounting–based profitability measures, we used this indicator to measure corporate financial performance in our empirical model. We follow the formulation suggested by Damodaran (2001) to compute cash flows, or free cash flows as

$$\begin{aligned} &Cash\ Flow\ to\ a\ firm \\ &\quad = Earnings\ before\ Interest\ and\ Tax\ (EBIT) \times (1 - tax\ rate) + Depreciation \\ &\quad - Capital\ Expenditures - Change\ in\ Noncash\ Working\ Capital\ (NCWC). \end{aligned}$$

where tax rate is estimated by dividing current taxes (i.e. the difference between total taxes and deferred taxes) by EBIT, and NCWC is calculated as the difference between current assets and cash in short term investments minus the difference between current liabilities and debt in current liabilities. A similar approach is employed by Agarwal and Berens (2009). By matching the GVKEY codes, we collected these financial data from COMPUSTAT North America to compute the cash flows of firms available in both the FAMA and the Pulse Score data sets. The end-year cash flows are computed for 2006 through 2010, which represent the firm's financial performance in these years. In each year, we normalized the cash flows by deducting the cross-sectional mean and dividing it by the standard deviation.

3.3.3 Measuring CSP

To measure Carroll's four CSP domains, we used the performance ratings provided by KLD. KLD is a U.S. social choice investment advisory firm that objectively rates publicly traded firms on several aspects of social performance annually (Brammer and Pavelin 2006). The rating model includes over 50

indicators in the following seven categories: environment, community, human rights, employee relations, diversity, customers and governance. It also includes data on a firm's involvement in controversial business issues, such as alcohol and gambling. The ratings are binary, with a "1" indicating the presence of a particular social action, which can either be a "strength" or a "concern", while a "0" indicates the absence of such an action. "KLD uses a variety of sources to capture these data including annual surveys, annual reports, proxy statements, and quarterly reports, as well as external data sources such as articles in the general business press and agencies" (Hillman and Keim 2001, p. 130). This rating model has been used in many previous studies (e.g. Waddock and Graves 1997; Hillman and Keim 2001; Agarwal and Berens 2009), and its validity has been tested and confirmed by Sharfman (1996).

In order to adapt the KLD measure to capture Carroll's (1991) CSP domains, we follow Hillman and Keim (2001) to customize the KLD rating. To create four variables indicating economic strengths, philanthropic strengths, the avoidance of negative legal activities, and the avoidance of negative ethical activities, two of the authors independently coded the relevant indicators into each of these four domains, according to Carroll's (1991) definitions of these domains. Since the indicators of KLD rating vary over the years, we follow Berman, Wicks, Kotha and Jones (1999) in considering only the indicators that are measured in all of our years of study from 2006 through 2010. Similar to the reputation indicators, the ratings in these years represent the CSP of one year earlier due to a one-year lag in availability. After discussions about the codes the two authors agreed on which indicators were to be used to comprise the four CSP domains, see Table 6. To indicate the avoidance of legal and ethical concerns, we coded all "1s" in these two ratings (indicating the presence of a concern) into "-1".

Table 6. KLD indicators used to measure the CSP aspects

KLD Dimension	KLD Indicator	KLD symbol	Strengthening Positive Philanthropic CSP	Avoiding Negative Ethical CSP	Avoiding Negative Legal CSP	Strengthening Positive Economic CSP
Product	Quality	PRO-str-A				1
Product	R&D/Innovation	PRO-str-B				1
Community	Tax Disputes	COM-con-D			1	
Environment	Hazardous Waste	ENV-con-A			1	
Environment	Regulatory Problems	ENV-con-B			1	
Community	Negative Economic Impact	COM-con-B		1		
Human Rights	Burma Concern	HUM-con-C		1		
Human Rights	Indigenous Peoples Relations Concern	HUM-con-G		1		
Diversity	Work/Life Benefits	DIV-str-D	1			
Community	Volunteer Programs	COM-str-G	1			

3.3.4 Measuring control variables

We included four control variables to ensure that any relationships found were not a result of confounding variables. Because size and growth have been suggested in the literature (Hillman and Keim 2001; Roberts and Dowling 2002) to be factors that affect both corporate reputation and firm performance, we included size and growth as two control variables in our analysis. Size is constructed as the logarithm of Total Assets. Growth is represented by the Market-to-Book Ratio, which is calculated as (Total Assets-Book Equity + Market Equity)/Total Assets. Because leverage is identified in the literature as a factor that can account for differences in CFP across firms (Waddock and Graves 1997), we also added it to our research model. We follow Agarwal and Berens (2009) in measuring leverage as Total Debt/Total Assets. Because Capon, Farley and Hoening (1990) argue that capital intensity has a negative effect on financial performance, we also included this variable in the model. It was measured by Net Fixed Assets/Total Assets. All the corresponding data for these control variables were collected from COMPUSTAT North America. To avoid a potential reverse-causality bias, similarly to the CSP and reputation variables, we used data for the control variables between 2005 and 2009, lagged for one year compared to the cash flow variable.

3.3.5 Merged final data set

We matched the CSP data, reputation data and financial data of each firm by their GVKEY codes. After merging data from these different archival sources, we obtained a panel data set consisting of 289 firm-year observations for the 2006-2010 periods. However, because we employed the lagging process (2005-2009) for CSR, corporate reputation and control variables, one year's data are omitted. Therefore, the final data set included 232 data points. This merged data set includes firms in various industries, ranging from manufacturing to retailing and from durables to nondurables.

Chapter 3

3.4 Analysis and Results

To test our hypotheses, we employ structural equation modelling (SEM) through partial least squares (PLS) (Chin 1998). PLS is becoming a popular approach in both management and strategy literature (Hulland 1999). Compared to covariance-based structural equation modelling techniques, PLS is most appropriate when sample sizes are small, when assumptions of multivariate normality and interval scaled data cannot be made, and when the researcher is primarily concerned with prediction of the dependent variable (Fornell and Bookstein 1982). It is especially suitable during the early stage of theory building and testing (Birkinshaw, Morrison and Hulland 1995). In this study, our sample size (n = 232) is smaller than that usually recommended for traditional SEM (Fan, Thompson and Wang 1999). Besides, since the KLD indicators are binary, they do not meet the assumption of multivariate normality. Therefore, we considered PLS rather than the traditional SEM to be a better approach for testing our hypotheses.

Although we could also test our research model by ordinary least squares, we considered PLS because it examines all path coefficients simultaneously to allow the analysis of direct, indirect, and spurious relationships. In addition, it estimates the individual item weights in the context of the theoretical model rather than in isolation (Birkinshaw, Morrison and Hulland 1995). Finally, the PLS approach provides a means for directly estimating the latent variable component scores.

We report our results in two stages. In the first stage, we present the reliability and validity of the measures used as operationalizations of the underlying constructs. In the second stage, we report and interpret the hypothesized paths, implied by the resulting model coefficients.

3.4.1 Validity and reliability of measurement model

Because we assume that the assigned KLD indicators of each of the four CSR aspects all measure the same underlying construct, our latent variables all consist of reflective indicators. The reflective manner implies that all the KLD indicators of one CSP aspect are positively correlated. And the magnitude in which each KLD indicator shifts relative to the shift in the underlying construct is based on how well the indicator reflects the CSP aspect. This can be determined by the loading of each KLD indicator, which is proportional to the amount of variance in that indicator that the CSP aspect is able to account for (Chin 1998).

Public reputation and financial reputation

The loadings of the KLD indicators on the CSP aspects are shown in Table 7. For preparation, all the indicators have been standardized (i.e., means equal to zero, and standard deviations equal to one), and case-wise deletion was chosen for missing values. Significance was determined through bootstrapping with 500 resamples. The results lend some support for the convergent validity for all the measures because the estimated loadings of indicators for the underlying CSP constructs are significant (i.e., $p<0.05$). We used the composite reliability measure developed by Fornell and Larcker (1981) to assess internal consistency. They argue that this measure is superior to Cronbach's alpha because it uses the item loadings obtained within the causal model. The composite reliabilities of all four CSP aspects are higher than 0.6 (see Table 7), which is suggested as a reasonable level for explanatory research by Bagozzi and Yi (1988). In addition, the average variance extracted (AVE) exceeds the 0.5 benchmark for all constructs (Fornell and Larcker 1981), suggesting sufficient convergent validity of the measures. Discriminant validity represents the extent to which measures of a given construct differ from those of other constructs in the same model (Hulland 1999). We followed Fornell and Larcker to test the discriminant validity by comparing the AVE values with the correlation matrix of the constructs (see Table 8). The diagonal elements in the matrix are replaced by the square root of the AVEs. They are greater than all other entries in the corresponding rows and columns, which confirms the adequacy of discriminant validity. In summary, the results of the measurement model suggest that our measures are sufficiently reliable and valid, and can be used for testing the nature of the relationships between the constructs.

Table 7. The composite reliability of the constructs

Construct	Items	Factor Loading	Composite Reliability	AVE
Avoiding Negative			0.767	0.526
Legal CSP	-> COM-con-D	0.651**		
	-> ENV-con-A	0.826**		
	-> ENV-con-B	0.686**		
Strengthening Positive			0.705	0.545
Economic CSP	-> PRO-str-A	0.757**		
	-> PRO-str-B	0.719**		
Avoiding Negative			0.823	0.614
Ethical CSP	-> COM-con-B	0.619**		
	-> HUM-con-C	0.789**		
	-> HUM-con-G	0.914**		
Strengthening Positive			0.821	0.697
Philanthropic CSP	-> DIV-str-D	0.818**		
	-> COM-str-G	0.850**		

a † p< 0.1; * p< .05; ** p< .01

Table 8. Discriminant validity: Correlations between constructs

	Cash Flow	Public Reputation	Financial Reputation	Legal CSP	Economic CSP	Ethical CSP	Philanthropic CSP
Cash Flow	1.000						
Public Reputation	0.137	1.000					
Financial Reputation	0.212	0.050	1.000				
Legal CSP	-0.179	0.426	-0.143	0.725			
Economic CSP	0.221	0.362	0.091	-0.134	0.738		
Ethical CSP	0.041	0.421	-0.165	0.549	-0.002	0.784	
Philanthropic CSP	0.442	0.172	0.220	-0.013	0.426	-0.051	0.835

a The diagonal elements in the matrix are the square root of the AVEs.

3.4.2 Hypotheses tests

In testing the mediating roles of public and financial reputations, we standardized all the indicators (mean = 0, standard deviation = 1), and ran the bootstrap procedure in PLS with the construct-level correction for sign changes option and with 500 resamples. Because our conceptual model also predicts the insignificance of some paths coefficients implicitly (e.g. no mediation effect of financial reputation on the relationship between economic CSP and cash flow), these paths were tested in the structure model as well. We also tested the direct impacts of the four CSP aspects on cash flow. The PLS results are very stable with respect to the number of resamples. Table 9 shows the results of the coefficients. The means of the resamples are very close to the original sample estimates with a low standard deviation (except the control variable *Leverage*). Overall, the model explained 29.9 percentage of the variance in cash flow, 9.3 percentage of the variance in financial reputation, and 39.9 percentage of the variance in public reputation. Because PLS path modelling does not optimize any global scalar function, it lacks an index of the global validity of the model. The goodness-of-fit (GoF) index represents an operational solution to this problem. It is calculated as the geometric mean of the average communality and the average R-squared (Tenenhaus, Esposito Vinzi, Chatelin *et al.* 2005). The GoF of this model is 0.962, which is regarded as a sufficient fit by Wetzels, Odekerken-Schröder and van Oppen (2009).

Hypothesis 1 predicts that a higher public reputation leads to a higher financial reputation. The path from public reputation to financial reputation is marginally significant (t-value = 1.854, $p < 0.1$), weakly in support of Hypothesis 1 (see Table 9). To illustrate the economic value of this impact, we consider the changes of the financial reputation rankings corresponding to the standard deviation shocks on public reputation. Take 2010 for instance: The average *Pulse* score is 69.76. Considering a one-standard deviation shock on *Pulse* (i.e. the public reputation), that is, increasing or decreasing the *Pulse* score by 8.94, leads to a change of the *Fortune* score (i.e. the financial reputation) of 0.1, calculated as the product of the estimated coefficient of public reputation (0.164) and the one-standard deviation of the financial reputation (0.62). With regard to the average *Fortune* score in 2010 (6.75) which ranked at 87, the corresponding changes would be an increase to 74 or a decrease to 110 in the ranking list, respectively. Considering the potential changes in the *Fortune* reputation ranking, the impact of public reputation on financial reputation is not negligible.

Table 9. PLS results for mediation effects

Model Specifications	Original Sample Estimates	Mean of Resamples	Standard Deviation	Standard Error	T Statistics
Public Reputation -> Financial Reputation	0.164	0.163	0.089	0.089	1.854†
Public Reputation -> Cash Flow	0.164	0.164	0.067	0.067	2.460*
Financial Reputation -> Cash Flow	0.141	0.139	0.057	0.057	2.459*
Legal CSP -> Cash Flow	0.040	0.037	0.029	0.029	1.371
Legal CSP -> Financial Reputation	-0.082	-0.079	0.093	0.093	0.880
Legal CSP -> Public Reputation	0.363	0.360	0.058	0.058	6.267**
Economic CSP -> Cash Flow	0.056	0.057	0.029	0.029	1.913†
Economic CSP -> Financial Reputation	-0.015	-0.002	0.061	0.061	0.238
Economic CSP -> Public Reputation	0.409	0.406	0.047	0.047	8.728**
Ethical CSP -> Cash Flow	0.016	0.019	0.024	0.024	0.667
Ethical CSP -> Financial Reputation	-0.110	-0.113	0.067	0.067	1.641
Ethical CSP -> Public Reputation	0.223	0.226	0.058	0.058	3.883**
Philanthropic CSP -> Cash Flow	0.033	0.034	0.021	0.021	1.598
Philanthropic CSP -> Financial Reputation	0.220	0.218	0.067	0.067	3.262**
Philanthropic CSP -> Public Reputation	0.014	0.019	0.055	0.055	0.252
Capital Intensity -> Cash Flow	-0.243	-0.245	0.049	0.049	4.915**
Leverage -> Cash Flow	0.003	-0.002	0.068	0.068	0.050
Growth -> Cash Flow	0.019	0.018	0.049	0.049	0.390
Size -> Cash Flow	0.477	0.477	0.053	0.053	8.984**
R-squared					
Cash Flow			0.299		
Financial Reputation			0.093		
Public Reputation			0.399		

a † p< 0.1; * p< .05; ** p< .01

Public reputation and financial reputation

Hypothesis 2 predicts that a higher public reputation leads to a higher cash flow, which is partially mediated by the financial reputation. Our test of Hypothesis 1 has confirmed that the predictor variable (public reputation) influences the mediator variable (financial reputation) significantly. As Table 9 shows, the mediator variable significantly influences the dependent variable (cash flow), and the predictor variable influences the dependent variable significantly as well (t-value = 2.459, $p < 0.5$ and t-value = 2.460, $p < 0.5$, respectively). The combination of all three paths confirms our conjecture of the partial mediation effect in Hypothesis 2.

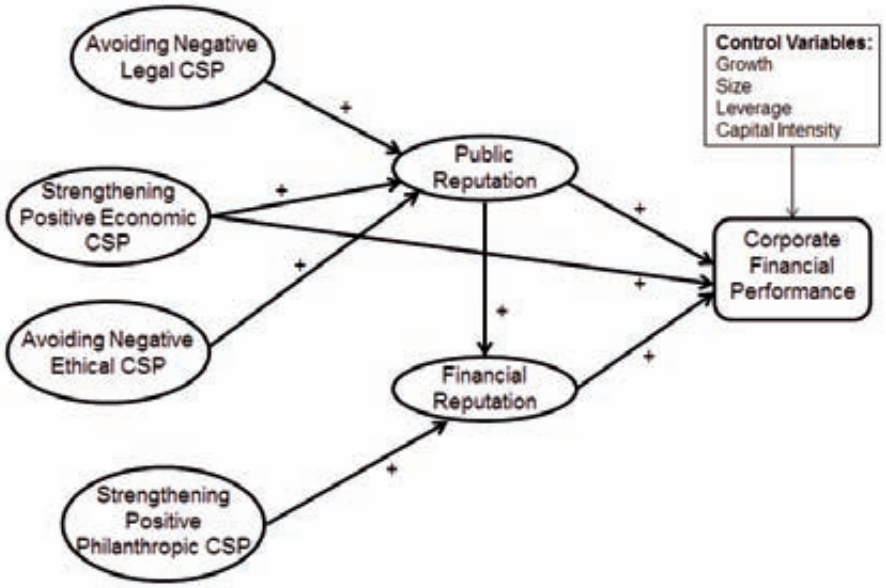
Hypotheses 3a and 3b predict that public reputation mediates the positive impacts of positive economic CSP, and Hypotheses 4a and 4b predict that public reputation mediates the positive impacts of avoiding negative legal CSP activities, respectively. All predictions are confirmed: We observe both a significant positive influence of avoiding negative legal CSP on public reputation (t-value = 6.267, $p < 0.01$) and a significant positive influence of economic CSP on public reputation (t-value = 8.728, $p < 0.01$). However, the results of legal CSP suggest a full mediation effect, while those of economic CSP only show a partial mediation effect. For instance, a direct effect of economic CSP on cash flow still remains (t-value = 1.913, $p < 0.1$), though the direct effect (coefficient estimate = 0.056) is lower than the indirect effect (coefficient estimate = 0.077), calculated as follows.

$$Coefficient\ Estimate = 0.409\ (economic\ CSP \rightarrow public\ reputation) * 0.164\ (public\ reputation \rightarrow cash\ flow) + 0.409\ (economic\ CSP \rightarrow public\ reputation) * 0.164\ (public\ reputation \rightarrow financial\ reputation) * 0.141\ (financial\ reputation \rightarrow cash\ flow) = 0.077.$$

Hypotheses 3c and 3d predict indirect effects of ethical CSP and Hypotheses 4c and 4d predict indirect effects of philanthropic CSP, both mediated through corporate reputation among public stakeholders. We find that public reputation indeed mediates the positive impact of avoiding negative ethical CSP on cash flow. The coefficient of the ethical CSP-public reputation path is significant (t-value = 3.883, $p < 0.01$), in support of Hypothesis 4c and 4d. However, we do not observe a similar mediation effect for philanthropic CSP, so we cannot confirm Hypothesis 3c and 3d. Hypotheses 3e and 4e predict that positive philanthropic CSP and avoiding negative ethical CSP influence the perceptions among

financial stakeholders negatively. We find that although the path from ethical CSP to financial reputation demonstrates a trend similar to our prediction, the coefficient is insignificant at the 0.1 level (t-value = 1.641). So the results do not support Hypothesis 4e. Our predictions in Hypothesis 3e are not supported by our findings. The path from philanthropic CSP to financial reputation is statistically significant (t-value = 3.262, $p < 0.01$), but the sign is positive. This result suggests that financial stakeholders form a positive perception with respect to positive philanthropic CSPs, rather than a negative one as predicted in Hypothesis 3e. Therefore, corporate reputation among financial stakeholders mediates the positive impact of philanthropy on CFP. Figure 3 summarizes the results of the hypotheses tests. Only the significant paths are presented.

Figure 3. Summary of results



3.4.3 Robustness checks

Because the KLD indicators are subjectively coded into four CSP dimensions, variations in the composition of the constructs may influence the empirical results. Therefore, we conducted additional analyses to test the robustness of our model. As Table 10 shows, the economic and philanthropic aspects each have two indicators, while the legal and ethical aspects each have three indicators. Although we also considered some other KLD indicators reflecting each of these CSP aspects, we did not include these entities in our model due to a low convergent validity (see the AVE values in Table 10). These additional indicators, as well as the indicators in use, are shown in Table 10. For instance, two indicators, charitable giving and innovative giving, are added to the philanthropic aspect, since these activities are in line with Carroll's definition of philanthropic CSP as good corporate citizen (1991).

In the alternative model, we included all entities in Table 10 to reflect the CSP aspects, and tested the research model in PLS, by using the newly constructed measurement model. Table 11 presents the results. We find that most results are consistent with those in Table 9, except for the significance of the paths from ethical CSP to financial reputation and from philanthropic CSP to cash flow. The former is now significant at the 0.05 level (t-value = 2.083), which is in support of the predicted negative effect in Hypothesis 4e. The latter shows a direct positive impact of philanthropy on cash flow (t-value = 1.906, $p < 0.1$). Based on the findings of this extended model, we can conclude that the results of the effects of financial reputation, economic CSP, legal CSP and philanthropy CSP are robust. Although those regarding ethical CSP deviate in terms of significance, we observe a similar trend in that financial reputation mediates the negative impact of avoiding negative ethical CSP activities.

3.5 Discussion

The goal of this paper is to contribute to research on corporate reputation by investigating whether establishing a good reputation among different audiences through engaging in different types of CSP can lead to a good financial performance. We developed theoretical arguments about the mechanisms through which two distinct types of perceptions—public reputation and financial reputation—may affect firm outcomes, and tested the empirical relationships that we predicted based on these theoretical arguments. Our study suggests that: (1) Carroll's four types of corporate social performance responsibilities (i.e. economic, legal, ethical and philanthropic) affect financial performance differently, (2) their effects are

mediated by public reputation and financial reputation, and (3) public reputation affects financial performance partially through its effect on financial reputation. Based on a secondary data set, our results show that the distinguishing corporate reputations among different stakeholder groups, together with the classification of different CSPs, may be important for clarifying different impacts of firms' socially responsible initiatives on CFP. For instance, we find that ethical CSP is positively perceived among public stakeholders, but negatively among financial stakeholders. These theoretical ideas and empirical results advance research on the relationship between corporate reputation and financial performance in several respects, and have implications for both management theory and practice.

3.5.1 Contributions to research on corporate reputation and CSP

A central contribution of our study is that it is the first to our knowledge that empirically clarifies the distinct roles of reputations among stakeholders. Under this conceptualization of reputation, firms can develop reputations for various aspects, depending on the interests of different stakeholder groups. For instance, "A firm may be seen as having a reputation for high-quality products, poor labor relations, or questionable environmental practices." (Deutsch and Ross 2003: 1145). Although a number of studies have addressed corporate reputation from this perspective in the management literature (e.g., Deutsch and Ross 2003; Rindova, Williamson, Petkova *et al.* 2005; Love and Kraatz 2009), few empirical studies have examined the impacts of these beliefs simultaneously, or identified the relationship among them. Our work extends this research stream by introducing the distinction between the expectations of financial stakeholders and public stakeholders to the framework of reputation management. Although we only observe weak support for our theorized prediction that public reputation affects financial performance partially through the mediating role of financial reputation, this study provides a new angle by examining reputation among different groups of corporate constituents empirically.

Another important contribution of this study is that we extended Carroll's classification of four types of CSP by including a stakeholder perspective. Schwartz and Carroll (2003) argue that the use of a pyramid framework by Carroll may be confusing or inappropriate, since it may suggest a hierarchy of CSP domains, with the top of the pyramid representing the most advanced stage of moral development, and the base of the pyramid the least advanced stage. They propose that none of the CSP domains is prima facie more important than the others. This statement is in line with the stakeholder theory that a

good relationship with all primary stakeholders is indispensable and vital to the survival of a firm (Clarkson 1995). We extended Carroll's model by distinguishing the four types of CSP with respect to the interests of different stakeholder groups. On the one hand, a distinction between fundamental and broader types of CSPs corresponds to the expectations of public and financial stakeholders, respectively. On the other hand, the distinction between legitimacy and distinctiveness corresponds to basic requirements regarding CSP commitments and value creation potential of non-required CSP activities, respectively. Such a distinction is well established in the management literature (see, e.g. Deephouse and Carter 2005), but rarely associated with the typologies of CSP.

Furthermore, we provided additional insight into the causal chain through which different CSPs are associated with a firm's financial performance. A similar attempt has been made by Luo and Bhattacharya (2006) in clarifying the mediating role of customer satisfaction in the same linkage. However, because they treat CSP as a single construct and focus only on customers as stakeholders, they rule out the possibility of examining multiple mechanisms. The mediating roles examined in our framework are important for two reasons. First, by focusing on Carroll's four types of CSP, we are able to specify the impacts of CSP activities on distinct stakeholder groups. Due to the diversified expectations of public and financial stakeholders, their reactions to the same CSP activity may vary. Such a classification extends the CSP literature by drawing attention to specific mechanisms by which positive and negative CSP activities affect a firm's performance. Second, it also extends research on corporate reputation by identifying different antecedents of public and financial reputation, respectively. Although the antecedents of reputation have been extensively discussed in literature (see, e.g. Fombrun and Shanley 1990; Rindova, Williamson, Petkova *et al.* 2005; Mazzola, Ravasi and Gabbioneta 2006), they have rarely been compared among different stakeholder groups. Our findings suggest that economic and legal CSPs mainly influence a company's public reputation, philanthropic CSP influences financial reputation, while ethical CSP affect both types of reputation. Overall, by examining the chain of effects from different types of CSP to different types of reputation to a firm's cash flow, our research contributes to identifying the underlying pathways through which the CSP value creation is achieved.

3.5.2 Limitations

While this study highlights important insights into the effects of different types of CSP activities, we also note a potential limitation of using the KLD data in our research model. Because the KLD ratings were not developed as an operationalization of Carroll's four types of CSP, only some KLD indicators were used to measure the four dimensions. Therefore, these indicators may not reflect all the activities discussed by Carroll. In addition, to mitigate any potential ambiguities, as well as to minimize methodological problems (e.g. a high multicollinearity among indicators), we only coded those indicators which can be clearly assigned to one dimension conceptually, rather than to multiple dimensions. This choice resulted in a limited number of indicators in each dimension, which further limited the comprehensiveness of the measures in reflecting the CSP initiatives in Carroll's framework. Therefore, to inspire greater confidence in our findings, further research can employ an alternative measure of CSP to test our research model, for instance, by following the method discussed by Margolis and Walsh (2003) and Orlitzky *et al.,* (2003) to "measure direct spending on CSP initiatives with a large-scale record of CSR monetary expenses across many firms" (Luo and Bhattacharya 2006, p. 14).

3.5.3 Implications for management practice

Our findings also have implications for managers. First, although perceptions (e.g. corporate reputation) are often considered as too idiosyncratic to be managed, Pfarrer *et al.* (2010) have demonstrated that perceptions may have distinct impacts, and these effects are predictable. Our study further suggests that when managers choose to emphasie a particular CSP initiative in their communication (aimed at fundamental versus broader concerns, or aimed at creating distinctiveness versus aimed at creating legitimacy), they generate perceptions among different stakeholders which can influence a firm's financial performance. For instance, a positive ethical CSP initiative is likely to generate positive perceptions among public stakeholders, while a positive philanthropic CSP can form favorable perceptions among financial stakeholders. Therefore, in line with stakeholder management, managers can choose to emphasize certain CSP initiatives in their communication, depending on the specific stakeholder group they are targeting.

Public reputation and financial reputation

Second, since our findings confirmed the mediating effect of financial reputation in the relationship between public reputation and financial performance, they provide managers an alternative manner to manage stakeholders indirectly. In order to influence the beliefs of shareholders and investors, managers can also strive to generate a positive perception among other stakeholders, for instance, the general public. It generates more flexibility to managers in stakeholder management.

Overall, our results support the importance of CSP commitments (e.g. Brown 1997; Sen and Bhattacharya 2001) when allocating limited firm resources, because of potential financial benefits. Luo and Bhattacharya (2006) suggest that companies should realize that CSP initiatives "can represent a robust public relations strategy, particularly in the current market environment in which stakeholders, such as customers (and employees), may have strong social concerns" (p. 15). By engaging in CSP initiatives strategically, a firm can gain competitive advantages and reap financial benefits.

Appendix: Results of the Robustness Checks

Table 10. Extended set of KLD indicators

KLD Dimension	KLD Indicator	KLD symbol	Strengthening Positive Philanthropic CSP	Avoiding Negative Ethical CSP	Avoiding Negative Legal CSP	Strengthening Positive Economic CSP
Product	Quality	PRO-str-A				1
Product	R&D/Innovation	PRO-str-B				1
Environment	Beneficial Products and Services	ENV-str-A				1
Community	Tax Disputes	COM-con-D			1	
Employee Relations	Health and Safety Concern	EMP-con-B			1	
Environment	Hazardous Waste	ENV-con-A			1	
Environment	Regulatory Problems	ENV-con-B			1	
Community	Negative Economic Impact	COM-con-B		1		
Corporate Governance	High Compensation	CGOV-con-B		1		
Employee Relations	Union Relations	EMP-con-A		1		
Employee Relations	Retirement Benefits Concern	EMP-con-D		1		
Human Rights	Burma Concern	HUM-con-C		1		
Human Rights	Indigenous Peoples Relations Concern	HUM-con-G		1		
Diversity	Work/Life Benefits	DIV-str-D	1			
Community	Charitable Giving	COM-str-A	1			
Community	Innovative Giving	COM-str-B	1			
Community	Volunteer Programs	COM-str-G	1			

a Composite reliability: SPEOM = 0.620; ANLEG = 0.741; ANETH = 0.647; SPPIL = 0.688
b AVE: SPEOM = 0.384; ANLEG = 0.432; ANETH = 0.308; SPPIL = 0.377

Table 11. PLS results for mediation effects

Model Specifications	Original Sample Estimates	Mean of Resamples	Standard Deviation	Standard Error	T Statistics
Public Reputation -> Financial Reputation	0.148	0.141	0.088	0.088	1.674†
Public Reputation -> Cash Flow	0.162	0.157	0.065	0.065	2.487*
Financial Reputation -> Cash Flow	0.141	0.140	0.052	0.052	2.689**
Legal CSP -> Cash Flow	0.039	0.036	0.026	0.026	1.518
Legal CSP -> Financial Reputation	-0.044	-0.040	0.097	0.097	0.457
Legal CSP -> Public Reputation	0.319	0.316	0.059	0.059	5.389**
Economic CSP -> Cash Flow	0.053	0.053	0.028	0.028	1.892†
Economic CSP -> Financial Reputation	-0.004	0.010	0.067	0.067	0.060
Economic CSP -> Public Reputation	0.377	0.370	0.062	0.062	6.127**
Ethical CSP -> Cash Flow	0.015	0.017	0.025	0.025	0.604
Ethical CSP -> Financial Reputation	-0.157	-0.163	0.075	0.075	2.083*
Ethical CSP -> Public Reputation	0.262	0.272	0.055	0.055	4.756**
Philanthropic CSP -> Cash Flow	0.039	0.040	0.020	0.020	1.906†
Philanthropic CSP -> Financial Reputation	0.224	0.222	0.073	0.073	3.063**
Philanthropic CSP -> Public Reputation	0.050	0.061	0.062	0.062	0.810
Capital Intensity -> Cash Flow	-0.243	-0.249	0.052	0.052	4.698**
Leverage -> Cash Flow	0.003	0.001	0.068	0.068	0.050
Growth -> Cash Flow	0.019	0.019	0.053	0.053	0.362
Size -> Cash Flow	0.477	0.479	0.049	0.049	9.840**
R-squared					
Cash Flow			0.299		
Financial Reputation			0.094		
Public Reputation			0.399		

a † p< 0.1; * p< .05; ** p< .01

CHAPTER 4

STUDY 3 — COMPETING IN THE CAPITAL MARKET WITH A GOOD REPUTATION [*]

Abstract

This study investigates how a good reputation generates competitiveness for a firm in the capital market. We distinguish two aspects of corporate reputation - trustworthiness and attractiveness - and identify their distinct impacts on reducing management and business risks of investors, respectively. Our findings suggest that trustworthiness enhances investors' expectations regarding a firm's motives, and gains the firm a competitive advantage from holding a low financing cost. Attractiveness, on the other hand, reduces investors' uncertainty regarding a firm's ability, and generates the firm a competitive advantage from a great flexibility in choosing different financing instruments. We further demonstrate the impacts of these two types of competitive advantage on the capital structure management of a firm.

Keywords: *corporate reputation; competitive advantage; trustworthiness; attractiveness; capital structure*

[*] This paper has been published as: Wang, Y., G. Berens and C. van Riel, B. M. (2012). Competing in the capital market with a good reputation, ***Corporate Reputation Review***, Vol. **15**(3), p. 198-221.

Chapter 4

4.1 Introduction

As an important intangible asset, corporate reputation helps reduce uncertainties about a firm among its stakeholders (Weigelt and Camerer 1988; Aaker and Jacobson 1994; Pfarrer, Pollock and Rindova 2010), and may correspondingly influence a firm's performance. In empirical studies, scholars document that a good reputation is usually associated with a superior performance. Such a relation remains even when controlling for firms' performance in the past (Fombrun and Shanley 1990; Roberts and Dowling 2002; Rindova, Williamson, Petkova *et al.* 2005; Rindova, Williamson and Petkova 2010). Nevertheless, since classical finance theory suggests that investors' decisions are based on the fundamental information of a firm's financial performance, it tends to rule out a positive reputation-performance relationship. To clarify this puzzle, it is necessary to uncover the mechanism through which a good reputation reduces investors' uncertainties regarding a firm, and consequently identify how firms compete with a good reputation in the capital market. Understanding such a mechanism is crucial for firms with a high development potential. By achieving a good reputation, they are capable of acquiring adequate and reliable financing from investors, which is of a great importance for turning their potentials into a good performance.

Uncertainty is a fundamental issue in the capital market, which exposes investors to various risks for their investment (Baker and Wurgler 2002). During the early 1970s, economists have employed the agency theory to describe a risk-sharing problem, using the metaphor of a contract (Jensen and Meckling 1976). One of the intensively discussed agency problems is the conflict between firms and investors in the finance literature (see, e.g. Myers and Majluf 1984; Healy and Palepu 2001). Due to the information asymmetry between these two parties, investors have difficulty in verifying a firm's motives to behave appropriately, for instance, judging whether the managers of a firm will strive to maximize shareholders' values. The severity of such a conflict between firms and investors reflects the level of a firm's management risk (Jensen 1986). In addition to this risk, investors also bear a business risk. It stems from the uncertainty regarding a firm's potential growth opportunities (McConnell and Servaes 1994), or in other words, its ability to achieve a forecasted cash flow. Bearing management and business risks in investment decision making, investors would demand a risk premium to compensate for the uncertainties of their investments. As a consequence, firms have to bear a high financing cost, as well as a barrier for choosing different financing methods, which reduces their accessibility to capital (Myers and Majluf 1984; Jensen 1986; Healy and Palepu 2001).

Competing in the capital market with a good reputation

Discussions on the role of reputation in reducing uncertainties in the capital market have emerged in different areas of literature. Existing studies vary from personal reputation of financial analysts such as auditors and underwriters (Beatty and Ritter 1986; D'Aveni 1990) to corporate reputation (Chemmanur and Paeglis 2005; Farber 2005; Herbig *et al.*, 1994), and from stock market performance in normal times (Baker and Haslem 1973; Brammer *et al.* 2006) to extraordinary circumstances such as IPOs (Carter and Manaster 1990; Helm 2007) and corporate crises (Schnietz and Epstein 2005). Particularly, Mazzola, Ravasi and Gabbioneta (2006) and Gabbioneta, Ravasi and Mazzola (2007) explain the uncertainty issue as the fundamental problem when discussing the way of constructing reputation in the capital market. They find that a good reputation helps reduce the ambiguity associated with the plans of managers.

This paper studies the impact of corporate reputation on reducing different uncertainties in the investment decision process (i.e., management and business risks), which leads to a competitive position for a firm in the capital market. The contributions of this paper are twofold. First, it explains the reputation-performance relation by providing the causal path from a good reputation to a specific competitive advantage, and subsequently to a superior performance. Second, by further examining the specific aspects of corporate reputation, this study provides managerial guidelines to firms for managing a good reputation in order to gain competitiveness in the capital market.

To study the role of reputation in the capital market, we follow a three-step approach. First, we derive two reputation aspects-trustworthiness and attractiveness-from the demand of firms and investors for reducing uncertainty between them in the capital market. Second, we identify the strategic value of trustworthiness and attractiveness for establishing competitive advantages through reducing different types of uncertainty of investors about firms. We hypothesize that these effects on different types of uncertainty lead to different firm capital structures, and empirically test these hypotheses. Third, we identify the key antecedents associated with both reputation aspects. Because these antecedents are based on the fundamental information about a firm and help in explaining the formation of reputation, this approach provides insights in the strategic management of reputation.

Chapter 4

4.2 The Role of Reputation in Reducing Uncertainties

4.2.1 Distinguishing Trustworthiness and Attractiveness

The definition of corporate reputation in the literature is diversified (Rindova *et al.* 2010, Barnett *et al.* 2006). Nevertheless, Rindova *et al.* (2010) address two integrated conceptual points of reputation: *"…(a) reputation refers to social cognitions, such as knowledge, impressions, perceptions, and beliefs and (b) that these social cognitions reside in the minds of external observers."* In accordance with this view, Barnett, Jermier and Lafferty integrate different definitions of reputation into one concept: reputation is defined as a "*collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time*" (2006: 34). This definition recognizes reputation as social cognitions, which refer to the behavioral beliefs. Differently, Caruana (2006) suggests that besides behavioral beliefs, a reputation also refers to two other components: affect and behavioral intentions. Employing the theory of planned behavior, he conceptualizes corporate reputation as an attitude, which reflects the three components above. This conceptualization of reputation adopts a stakeholder's perspective and views perceptions as resulting from beliefs. As suggested by Newburry (2010) and Ponzi *et al.* (2011), it ultimately results in behaviors supporting a firm.

We adopt these two types of integrated definitions of reputation: as a belief about a firm (Barnett *et al.* 2006) and as an affect toward a firm (Caruana 2006), and label them as trustworthiness and attractiveness in this study. These two perspectives on reputation differ in feature and scope. On the one hand, attractiveness refers to the feeling of stakeholders about a firm. Schoorman *et al.* (2007) suggest that such a feeling may create a temporary "irrationality" about the data on a firm's ability. When a firm evokes such a good feeling among its stakeholders, a firm may still attract investors, even when bearing the uncertainty problem. On the other hand, from the trustworthiness perspective, reputations are stakeholders' cognitions on different aspects of a firm. Such beliefs develop as interactions between stakeholders and the firm accumulate (Weber *et al.* 2005). When these beliefs are positive, investors will hold the perception that firms are committed to behave towards their interests. Thus, a reputation for trustworthiness is considered as a belief, reflecting stakeholders' rational evaluations of a firm's motives over time. A similar comparison is made between cognition-based trust and affect-based trust (see Chua *et al.,* 2008).

Competing in the capital market with a good reputation

High trustworthiness and high attractiveness do not always go hand in hand. For instance, high-tech firms in the internet bubble in the late 1990s are a good example of firms which attract investors but which they do not consider as trustworthy. Lieberman and Asaba (2006) discuss the herd behaviors of analysts and institutional investors in that situation. They find that investors' evaluations of a high-tech firm do not solely depend on their own information. Instead, they regard a firm as an attractive investment object if other investors are confident at the firm's "great prospects". Investors' herd behaviors (i.e. over the purchase of equity from untrustworthy firms) drive the internet bubble upward, and eventually lead to a fatal loss. Such an irrational imitation serves to enhance the firm's attractive status, but does not suggest that this firm will indeed behave towards investors' interests. This example shows that holding an attractive status does not ease investors' uncertainty on firms' motives. An opposite situation, then, is a trustworthy firm which is not attractive to investors. Jensen (1986) suggests that compared to a firm with a variable free cash flow, that with a constant one is more engaged in investors' interests to fulfill scheduled payments, such as those for debt. A good example is retail companies. Holding a constant free cash flow, these firms have a potential to access the capital market by using debt instruments. However, the low-risk low-return nature of the retailing business is not attractive to equity investors with a high expectation on returns. Narayanan (1988) points out that such an underpricing on these firms' value force them to stick to debt financing. This example shows that being a trustworthy firm does not ease investors' uncertainty on its ability. The two examples demonstrate that the two aspects of reputation cannot substitute each other.

Since trustworthiness and attractiveness are two reputation aspects, they can be both recognized as intangible assets. As stated in Fombrun and Shanley (1990), reputation in general enhances firm effectiveness by signaling current and potential exchange partners on value creation. As intangible assets, they may fit the resource based view (RBV) framework: as economic resources, they generate competitive advantages that enable a firm to conceive of and implement strategies for improving its efficiency and effectiveness. Resources, or capabilities, enable a firm to acquire and develop its assets to achieve a superior performance than competitors (Dierickx and Cool 1989). Both Barney (1991) and Hall (1992) argue that reputation may be regarded as an intangible resource belonging to a firm and contributes to achieving a competitive advantage through differentiation. A growing body of theoretical research discusses the role of reputation in line with the RBV (Deephouse 2000; Pfarrer *et al.* 2010). Besides, many other papers identify the specific competitive advantages generated by reputation in

different contexts (e.g., Deephouse, 1999; Shamsie 2003; Rindova *et al.* 2005). Their findings support the RBV that reputation is a valuable intangible resource.

An important contribution of the RBV is to clarify the causality between corporate reputation and financial performance. Many empirical studies document that a good corporate reputation is associated with a good financial performance (McGuire, Schneeweis and Branch 1990; de la Fuente Sabate and de Quevedo Puente 2003). However, the direction of causality is not always clear: some studies find that reputation leads to a good performance (Deephouse 1997; Roberts and Dowling 1997), while others suggest that performance is an antecedent to reputation rather than a consequence (Fryxell and Wang 1994; Rose and Thomsen 2004; Deephouse and Carter 2005). This leads to a "chicken or egg" dilemma: To what extent does corporate reputation enhance a firm's performance and to what extent does performance enhance reputation (Bergh, Ketchen, Boyd *et al.* 2010)? Roberts and Dowling (2002) employ the RBV to explain the competitive advantage that reputation creates on sustaining a superior financial performance. They find that the uncertainty about the underlying quality of a firm makes it hard for competing firms to offset the signaling benefits by a good reputation. This effect may create a circle that good reputation firms would engage in the actions to further enhance their reputation, and thus sustain its superior performance.

4.2.2 Reducing Investors' Uncertainty by Holding a Good Corporate Reputation

Reputation scholars argue that a good reputation can generate advantages to a firm competing in the capital market. For instance, Beatty and Ritter (1986) point out that when a firm is issuing common shares to the public, the underwriter's reputation enhances the firm's access to the capital market. More generally, Dowling (1994) argues that corporate reputation plays a role in attracting investors, which ensures a long-term good performance. In this study, we identify how corporate reputation serves in creating those competitive advantages through reducing investors' uncertainties.

Myers and Majluf (1984) and Jensen (1986) suggest that the constraints for a firm to access the capital market refer to bearing a high financing cost and limited flexibility in choosing different financing instruments. The origin of these constraints stems from investors' uncertainties when making investment decisions, such as the management and business risks. Conversely, when these uncertainties are

weakened, a firm has the potential to gain competitive advantages in the capital market (Modigliani and Miller 1958; Titman and Wessels 1988; McConnell and Servaes 1994; Baker and Wurgler 2002).

In the capital market, firms are subjected to financing costs because investors demand a higher return to compensate the risk of investment. As discussed by Jensen (1986), according to the agency theory, the financing costs stem from the conflicts of interests between managers and investors. Hirshleifer (1993) points out that since managers have the incentive to increase the size of a firm, when obtaining sufficient financing, they may not behave towards the interests of investors, but overinvest in low or even negative profit projects, in order to maximize their own benefits. Hence, investors bear the uncertainty that when investing in a firm, managers may not aim to maximise investors' benefits (Dierkens 1991; Rajan and Zingales 1995). In response, investors would require a high risk premium when contracting their investments, which, in other words, generates a high financing cost to the firm (Barney and Hansen 1994; Healy and Palepu 2001). With a high financing cost, firms bear limited access to the capital market and may pass up some growth opportunities.

The agency problem mainly stems from an uncertainty on firms' motives. In order to reduce such an uncertainty, it is vital to establish investors' certainty on firms' incentives of behaving towards their interests. As sophisticated decision makers, investors tend to take into account both publicly available and privately acquired information (Milgrom and Roberts 1986). As a consequence, investors may infer expectations about the motives of a firm through the perceptions of other people. For instance, if other stakeholders, such as employees and communities, perceive a firm with positive motives to improve its working environment and voluntarily contribute to societies, it may suggest that this firm has an incentive to fulfil stakeholders' expectations, including those of investors (Hillman and Keim, 2001). These collective perceptions, held by these stakeholders, are summarized in a firm's reputation for trustworthiness among stakeholders. We follow Boon and Holmes to define trustworthiness as "positive expectations about another's motives with respect to oneself in situations entailing risk" (1991: 194). Notice that willingness to take risks is at the core of trust. Mayer, Davis and Schoorman (1995) and Weber, Malhotra and Murnighan (2005) argue that trust essentially means to take risk and leave oneself vulnerable to the actions of trusted others. This risky situation just reflects investment decisions in the capital market: If investors hold a high expectation about firms' motives to behave towards their interests, they are willing to expose themselves to the actions of invested firms. Therefore, whereas formed among other stakeholders, a reputation for trustworthiness helps reduce investors' uncertainty on firms' motives

to behave towards investors' interests and welfare. This is parallel to the viewpoint in Suh and Houston (2010) on how trust is formed between buyers and suppliers.

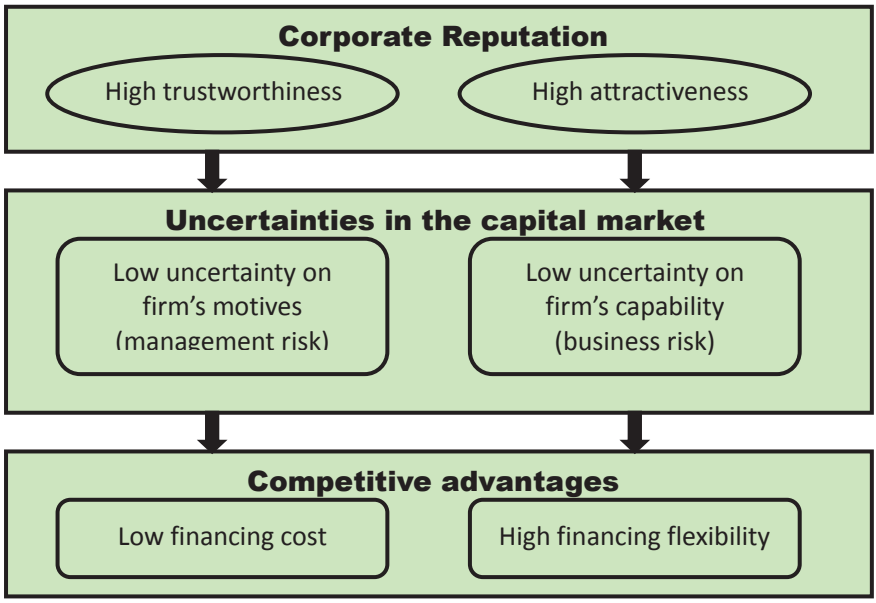
Even if the uncertainty on motives is reduced, in the sense that managers share the same interests as investors, firms may still miss growth opportunities because investors also bear a business risk (i.e. uncertainties on a firm's abilities to achieve a forecasted cash flow). Myers and Majluf (1984) point out that since managers hold more information about a firm's status than investors, when additional capital is needed, managers can attempt to attract equity investors by promising an unrealistic firm capability. In other words, acquiring additional capital through issuing new equity implies an overpricing of the firm's current value. Therefore, investors ask for a high premium when contracting new equities. The firm, as a consequence, may pass by some growth opportunities. Such an information asymmetry problem is well discussed in Healy and Palepu (2001). This problem, however, does not apply to acquiring new capital through issuing new debt, because debtholders only demand a fixed interest to compensate the business risk (Myers 1984). Firms suffering from such an information asymmetry problem, as a consequence, are bonded by debt financing, and would lose their flexibility in choosing different financing instruments. Since financing flexibility is crucial in implementing long term financing strategies (McConnell and Servaes 1994), it is in the firm's interest to reduce such an uncertainty caused by information asymmetry.

Similar to the arguments applied to the aforementioned uncertainty problem on motives, investors tend to price all available information relating to a firm's status. The confidence that other stakeholders hold in a firm's potential may help in mitigating this uncertainty problem, and enhance firms' attractiveness to investors. Besides, Mazzola *et al.*(2006) find that a knowledgeable, respected and committed firm leader may generate positive affect among investors regarding the corporate goals. The positive affect of stakeholders is reflected by a firm's attractiveness, i.e. whether corporate constituents *"feel good about this firm"* (Fombrun and Gardberg 2000). When a firm has a high attractiveness, stakeholders may have confidence in the firm's performance, and may commit to positive behavior towards these firms (Caruana 2006; Ponzi, Fombrun and Gardberg, 2011). For instance, consumers are willing to purchase their products and suppliers are willing to keep on contracting with these firms. All these valuable outcomes will eventually contribute to firm value. Therefore, investors will have positive opinion regarding a firm's ability for generating a high firm value in the future. As a consequence, they would not regard the firm's equity issuing as a signal of overpricing the current firm value. Therefore, attractiveness gives an investor "the needed first piece of evidence to take some initial risk" (Das and Teng 1998: 504) on their investment decisions. In other words, such a reputation has a direct link to

behavioral intentions (Caruana 2006). This is in line with the discussion in Schoorman, Mayer and Davis (2007) that stakeholders intend to take a sudden risk not warranted by the available evidence because of positive affect. Therefore, a high attractiveness serves to reduce investors' uncertainty on a firm's capability.

To summarize, we have identified two aspects of corporate reputation, trustworthiness and attractiveness, which play important roles in reducing management and business risks of investors, respectively (i.e. uncertainty on firms' motives and uncertainty on firms' ability). By reducing investors' uncertainty, firms have the potential to gain competitive advantages in terms of a low financing cost or a high financing flexibility, respectively. These arguments are summarized in the conceptual model illustrated in Figure 4.

Figure 4. Conceptual model



4.3 The Role of Reputation in Capital Structure

Our hypotheses in this study are summarized in the research model shown in Figure 5. We will discuss them in detail in the following paragraphs.

4.3.1 The Roles of Trustworthiness and Attractiveness in Capital Structure Management

Trustworthiness helps firms establish a competitive advantage through a low financing cost, while attractiveness helps firms gain a competitive advantage through a great flexibility, respectively. With different competitive advantages, a firm is capable of choosing different financing strategies. Thus the two aspects of reputation should have different impacts on firms' financing management.

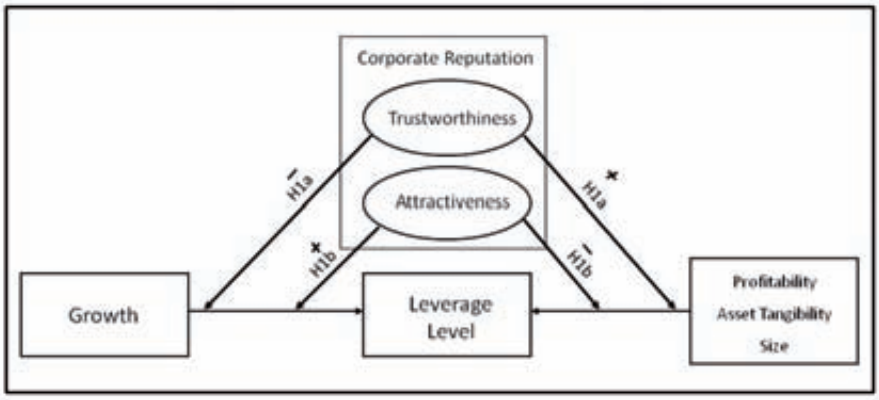
Myers and Majluf (1984) point out that in general managers will follow a pecking order in choosing financing instruments: Using up internal funds first, then using up risky debts, and finally resorting to equity. This is due to the fact that the cost of external financing is higher than the cost of internal financing; between the two external financing instruments, the cost of equity is much higher than the cost of debt. The pecking order of choices is summarized in the pecking order theory (POT) as a main stream theory on explaining the capital structure management (McConnell and Servaes 1994; Baker and Wurgler 2002). Following the pecking order choice is consistent with maximizing investors' wealth. Firms that have incentives to behave towards investors' interest will choose to voluntarily follow such a pecking order strategy. Firms with low financing flexibility, on contrary, are restricted to follow a pecking order strategy. They would not go for equity financing before using up their debt capacity which results in a high level of debt. This further limits the firm to take only low risk projects and pass up the growth opportunities on high risk-high profit projects. However, a firm may deviate from the prediction of POT in managing its capital structure. As mentioned, when investors bear lower uncertainty on a firm's ability, the firm has more flexibility in using external funds. By choosing to issue equity when the market fairly prices its value, the firm with a high financing flexibility can deviate from the pecking order choice.

Different financing strategies result in different balances between financing instruments, i.e. a firm's capital structure. A healthy capital structure is crucial for firms' long term development. It should on the one hand bear limited risk, and on the other hand well finance the projects for the growth of the

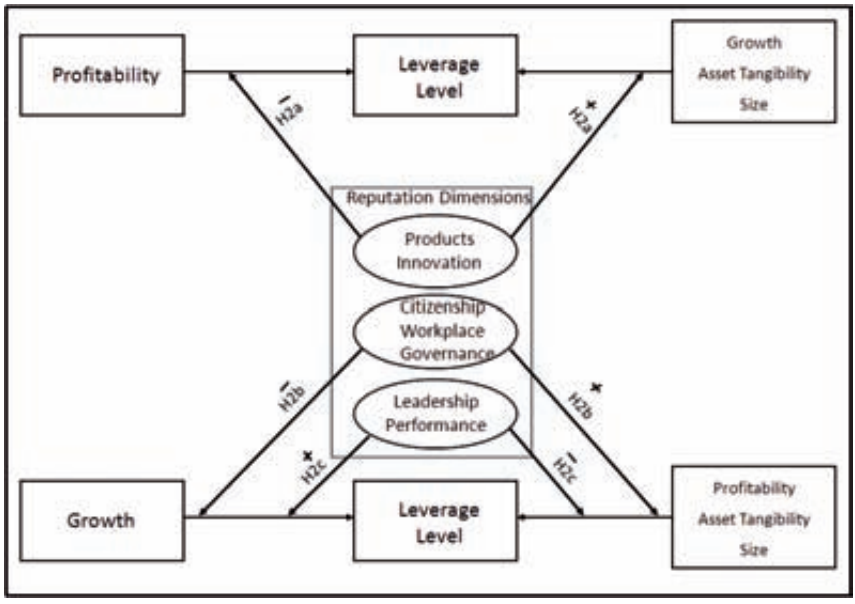
firm (Rajan and Zingales 1995; Healy and Palepu 2001; Sharfman and Fernando 2005). Because firms are mainly financed either through debt or equity capital, a major indicator of capital structure is the ratio of debt to its total financing, which is called the leverage level of a firm. The different financing strategies result in different determinants in the leverage level. Thus, in order to explore which types of financing strategies are used by a firm, we can investigate the determinants of the leverage of the firm. Most

Figure 5. The research model on the moderation effects of reputation

a) The moderation effects of Trustworthiness and Attractiveness



b) The moderation effects of reputation dimensions



empirical studies agree on four determinants of leverage: growth, profitability, size and asset tangibility (Titman and Wessels 1988; Smith and Watts 1992; Rajan and Zingales 1995).

We follow Rajan and Zingales (1995) to explain the relations between the four determinants and leverage. First, because firms with high growth opportunities have a potential to be more profitable, but endure a higher risk, managers may pursue high profits and tend to invest suboptimally (pursue risky projects for a potential high growth) to expropriate wealth from the shareholders (Myers and Majluf 1984; Baker and Wurgler 2002). Thus, if firms with a high growth issue new equity, it indicates that these firms have a great flexibility to deviate from the pecking order for financing. By issuing new equity, their leverage levels are correspondingly lower. Therefore, we should observe a negative relation between growth and leverage. When a strong negative relation between growth and leverage is observed among a group of firms, it indicates that the high-growth firms in this group indeed choose to deviate from the pecking order strategy. Second, profitability is an indicator of the capacity of internal financing. Having a higher profitability indicates a potentially larger amount of earnings available to be retained. Thus, profitability demonstrates the amount of internally generated funds. If firms with a high profitability use internal funds as much as possible, it suggests that they choose to follow the pecking order for financing, and they will have a low leverage level. Hence, we should observe a negative relation between profitability and leverage. When a stronger negative relation is observed among a group of firms, it indicates that the profitable firms in this group choose to follow the pecking order strategy more closely. Third, tangible assets are easy to collateralize (i.e. have more assets to pay back debt at bankruptcy), and thus can reduce the cost of debt. So it is considered as an indicator of potential collaterals for debt. If firms with more tangible assets take the advantage to issue more debt, it suggests that they are willing to follow the pecking order strategy, resulting in higher leverage levels. Therefore, we should observe a positive relation between asset tangibility and leverage. When a stronger positive relation is observed among a group of firms, it indicates that firms with a high tangibility in this group follow the pecking order strategy more closely. Fourth, large firms are more diversified and less prone to bankruptcy, so size is considered as a proxy for the inversed probability of default. If costs of financial distress limit leverage, the greater diversification of larger firms enables them to have more access to the debt market. Similar to asset tangibility, size has a positive relation with the leverage level. When a stronger positive relation is observed among a group of firms, it indicates that large firms in this group follow the pecking order strategy more closely. To summarize, if firms' leverage levels are more determined by the determinants of profitability, asset tangibility and size, their financing strategy is more in line with the POT; conversely,

if firms' leverage level are more determined by growth, their financing strategy is more deviated from the POT.

Because firms with high attractiveness or high trustworthiness have different competitive advantages and apply different financing strategies, we should observe different impacts of the four determinants on leverage. As discussed, firms with high attractiveness have the competitive advantage of flexibility in selecting financing instruments. Thus their financing managements are not bonded by the pecking order choice of financing instruments, and have less difficulty to catch growth opportunities. As a consequence, we conjecture that the leverage levels of firms with a high attractiveness would be more associated with growth, and less associated with the other determinants. Conversely, firms with high trustworthiness would behave towards investors' interest and follow the pecking order choice of the financing instruments. Therefore, we conjecture that the leverage levels of firms with a high trustworthiness would be more associated with profitability, asset tangibility and size, while they would be less associated with the other determinants. These statements are formulated in the following hypotheses:

Hypothesis 1a: Attractiveness strengthens the effect of growth, but weakens the effects of profitability, asset tangibility and size on leverage.

Hypothesis 1b: Trustworthiness strengthens the effects of profitability, asset tangibility and size, but weakens the effect of growth on leverage.

4.3.2 The Key Factors Associated with Trustworthiness and Attractiveness

We have identified the roles of trustworthiness and attractiveness in the capital market as intangible resources: They help reduce investors' uncertainties from different aspects, and build up different competitive advantages respectively. However, the formation of these two aspects is not clear yet. To figure out this problem, it is necessary to clarify the key factors associated with a positive trustworthiness or attractiveness. These factors are in line with the attributes which Fombrun and Shanley (1990) consider as the fundamental information on the basis of which a reputation is formed. On the one hand, by identifying these key factors, we can further explore which key factors correspond to trustworthiness and

which correspond to attractiveness. On the other hand, it provides managerial guidelines to managers who intend to improve firm's reputation on either aspect, in order to achieve competitive advantages in the capital market.

Fombrun and Shanley (1990), in a pioneering paper examining the determinants of corporate reputation, find that a mix of signals (i.e. marketing, accounting, institutional and strategy signals) drive the construction of reputation perceived by the general public. These determinants can be regarded as the beliefs on different aspects of a firm. Different belief attributes may work through distinct mechanisms in enhancing competitive advantages and result in different impacts. When measuring the reputation perceived by financial analysts, Mazzola *et al.* (2006) and Gabbioneta *et al.* (2007) suggest attributes such as leadership, financial performance, disclosure and internal control systems. The attributes are further explored in other studies (Farber 2005; Basdeo, Smith, Grimm *et al.* 2006; Rindova, Petkova and Kotha 2007). To summarize, their findings suggest that the attributes of reputation may function differently and have unequal influences on firm value, because different stakeholders may have different concerns on certain attributes, which is oriented by their own interests.

We consider the effects of a broader range of attributes and try to find out those key factors demonstrating the impacts on enhancing firm's competitive advantages in the capital market, which are comparable with the impacts of trustworthiness or attractiveness. We follow van Riel and Fombrun (2007) to focus on seven factors: *Performance*, *Products/Services*, *Innovation*, *Workplace*, *Governance*, *Citizenship* and *Leadership*, and discuss the potential functions of these factors.

Products are the core of a firm. A high product quality and a good value for money reflect a firm's capability of production in the past, which will reduce the information asymmetry for customers, as well as building up a reliable image of the firm (Rose and Thomsen 2004; Walsh and Beatty 2007). Similar to products, innovation also has a double-sided effect. On the one hand, R&D is considered as risky projects of a firm. By focusing on innovation, a firm has an advantage in high growth with a potential risk (McAlister, Srinivasan and Kim 2007). On the other hand, a high perceived innovativeness is associated to successful R&D history in the past, which also builds up a consistent image for the firm (Mizik and Jackson 2003). Therefore, we predict that they may have similar impacts as both trustworthiness and attractiveness: Firms with high beliefs on products and innovation may have competitive advantages through holding a low financing cost as well as a great flexibility in choosing financing instrument. The financing strategy in terms of the pecking order choice is mixed: Such firms may issue equity when

having a high growth opportunity, or issue debt when having more collateral assets, while preserving the capacity for internal funding for the future. In other words, profitability, an indicator of internal funding, is less considered by these firms. Consequently, in the leverage determination model, the effects of growth, asset tangibility and size will be enhanced, while the effect of profitability will be weakened.

Citizenship, defined as voluntary firm actions designed to improve social or environmental conditions, may not maximize firms' present value of their future cash flows (Mackey, Mackey and Barney 2007), since firms who support good causes and have a positive influence on society may bear a higher cost thus inducing uncertainty about their profit. Thus good citizenship does not generate attractiveness to investors. However, the lack of affect is compensated by the increased legitimacy of the firm (Maignan and Ralston 2002). This legitimacy may translate into an important resource during a crisis, which reduces the possibility of bankruptcy (Schnietz and Epstein 2005) and thus enhance the trust in the firm. Hence, we conjecture that beliefs on citizenship have a similar impact as trust. Second, workplace plays a role in enhancing credibility among employees. Since it reflects how a firm creates equal opportunities for employees and rewards employees fairly, a higher status on workplace is associated with higher quality human resources, which may enhance a reliable image of the firm (Gotsi and Wilson 2001). Similar to citizenship, maintaining a good workplace is costly, which does not necessarily generate attractiveness to investors. Third, governance is also a signal of trustworthiness. A clear, independent and credible internal control is important for building up confidence in the effectiveness of the control system (Mazzola *et al.* 2006). Good governance, as a consequence, demonstrates a high transparency of a firm's internal control and a firm's commitment to high legitimacy. However, because governance is not directly associated with profit generation, it does not necessarily attract investors. In sum, the three attributes, citizenship, workplace and governance all reflect a firm's legitimacy. Because they contribute to a firm's credibility, we conjecture that they have similar impacts as trustworthiness which creates competitive advantage in holding a low financing cost.

A good reputation for performance indicates a high profitability in the past, which could be a positive signal for the firm's asset quality and stable cash flow in the future (Roberts and Dowling 2002). Thus, it reflects the information on a firm's strategic success and contributes to attract investors. A good reputation for leadership is a key factor to success (Carter 2006; Mazzola *et al.* 2006). Firms with strong and appealing managers who have a clear view for the future development may have a better communication with the investors. Both beliefs on performance and leadership provide relatively concrete information regarding a firm's strategy, either through the firms' financial reports or the

communication with its managers, which help reduce the information asymmetry between firms and investors. Particularly, MacGregor *et al.*(2000) point out that positive affect is associated with a number of specific attributes, such as the quality of management or the prospects for financial success. Therefore, performance and leadership may have similar impacts as attractiveness, which creates a competitive advantage on having flexibility in financing management.

Based on this reasoning, we predict that:

Hypothesis 2a: Products and Innovation have mixed moderation effects on the leverage determinants: They strengthen the effects on growth, asset tangibility and size, while weaken the effect on profitability.

Hypothesis 2b: Citizenship, Workplace and Governance have a similar moderation effect as trustworthiness in the leverage determinant model: They strengthen the effects of profitability, asset tangibility and size, while weaken the effect of growth in the leverage determination model.

Hypothesis 2c: Leadership and Performance have a similar moderation effect as attractiveness in the leverage determinant model: They strengthen the effects of growth, while weaken the effect of profitability, asset tangibility and size in the leverage determination model.

4.4 Variable Construction and Model Specification

4.4.1 Data and variable construction

Our dataset consists of firms' corporate reputation data and financial data. To measure corporate reputation, we use two datasets provided by the Reputation Institute (RI) [1]: One reflects the two reputation aspects, trustworthiness and attractiveness, and the other includes the seven key factors associated with these two aspects.

[1] For more information about the data, please see the RI website at http://www.reputationinstitute.com/knowledge-center/global-pluse, or the discussion in Ponzi *et al.* (2011).

For trustworthiness and attractiveness, we consider two reputation dimensions from the survey data conducted by the RI, *Trust* and *Feeling*, as their proxies, respectively. We name them as *Trustworthiness* and *Attractiveness*. The RI is a management consultancy company founded in 1997 and operates in thirty countries. It conducts an annual online survey between January and February to measure the corporate reputations of companies in 29 countries, starting from 2001. There are around 60,000 general public respondents annually. The survey is based on a set of questions posed to respondents familiar with a company, and the answers are used to create scores of the four underlying reputation dimensions: *Trust*, *Feeling*, *Esteem* and *Admire & Respect* on a scale ranging from 0 to 100. *Trust*, which is considered as a measure of *Trustworthiness*, is constructed through the question asking respondents to indicate their agreement with the statement that "[company] is a company that I trust" in the survey conducted by Reputation Institute (Ponzi *et al.* 2011). *Feeling*, which is considered as a measure of *Attractiveness*, is constructed through respondents' agreement with the statement "[company] is a company I have a good feeling about". The Reputation Institute reports the overall measure of reputation, the *Pulse Score*, which is computed as the mean of the four dimensions, as an indicator of the overall reputation of a company. The topline results are published annually in *Forbes* as a ranking of "The World's Most Respected Companies".

Meanwhile, the RI survey also creates a standardized approach to measure the scores on seven key factors of reputation: Performance, Products/Services, Innovation, Workplace, Governance, Citizenship and Leadership, which are referred to as the RepTrak™ dimensions. These attributes are developed from the Reputation Quotient (RQ) approach (Fombrun, Gardberg and Sever, 1999). By combing 23 reputation indicators based on the annual survey, RI forms these seven core factors to represent the corresponding reputation attributes of each firm. We employ the RepTrak™ dimensions data as measures on the key factors.

In our empirical model, since the *Pulse Score* involves a potential 'halo effect' (a general positive evaluation affecting the scores on the specific attributes), we regard it as the common factor underlying the different reputation attributes, while estimating the true scores on the attributes we are interested in (Trustworthiness and Attractiveness) by eliminating the common information. This is in line with Roberts and Dowling's (2002) method to remove financial information from the reputation scores. We regress *Trustworthiness*, *Attractiveness* and the seven reputation factors on the normalized *Pulse Score* (i.e. having a mean of zero and a standard deviation of one). The residuals of the regressions contain the

remaining information that represents the sole contribution of the original reputation variables. We name the residuals as *Trustworthiness, Attractiveness, Products*, etc, respectively.

We choose the firms appearing on this list in 2007, 2008 or 2009, where the general public at the measuring time may base their judgments on the firms' performances in the year before. [2] In total, 553 companies are measured in either one, two or all of the three years with both the reputation and the seven RepTrak™ dimensions.

We match the companies with their end-year financial data in 2006, 2007 and 2008 from *Compustat North America* and *Compustat Global* and *EMDB* by their *GVKEY* codes. We drop those companies without complete available financial data on *Compustat*. For those companies from different countries, but referring to the same GVKEY code, we only maintain the one from the country of origin. We also drop those firms whose financial year end in June. This selection results in our final dataset consisting of 424 firm-year observations for the 2006-2008 periods.

For the financial data, following Rajan and Zingales (1995), we collect and construct the following variables (see Baker & Wurgler 2002, for more details): Total assets (TA), book debt (BD), book equity (BE), market equity (ME), retained earnings (RE), earning before interest, tax, and depreciation (EBITDA), net plant, property and equipment (PPE), and net sales (NS).

Based on those variables, we could construct the financial variables used in our model. The dependent variable in our analysis is the *Market Value Leverage*. It is calculated as BD/(TA-BE+ME), and is the end-year *Market Value Leverage* in 2006, 2007 and 2008 respectively. We focus on the market leverage because compared to the book leverage it could better reflect the market evaluation of a company. A low market leverage level corresponds to an appreciation of a firm's equity value (i.e. more access to the equity market), which indicates a lower cost of external financing and more flexibility in capital structure management. Other independent variables are: *Market-to-Book Ratio*, recognized as the indicator of growth, calculated as (TA-BE+ME)/TA; *Profitability*, calculated as EBITDA/TA; *Asset Tangibility*, calculated as PPE/TA; and *Net Sales* as the indicator of size. These four variables were considered by Rajan and Zingales (1995) as the determinants of leverage level.

[2] Since the Global reputation data starts from 2006, it is the earliest year that we could obtain data. However, RepTrak™ scores are not measured for many companies in 2006, so we decide to choose the data starting from 2007.

Chapter 4

The dataset includes firms from 25 industries. The telecommunications and energy industries present the highest percentages in the sample, 10.8% and 10.1% respectively. In addition, the dataset includes 22 countries. Half of the firms in the sample are originated from the United States, while European firms take about 30 percent, and the rest are from other countries.

Regarding the descriptive statistics of the dataset, for the financial indicators, *Market Value Leverage* has a significant negative correlation with *Market-to-Book Ratio*, *Profitability* and *Asset Tangibility*, which suggests that a firm with a high growth, profitability or asset tangibility encounters a low market value leverage level. The correlations among the four leverage determinants are either modest or low, which suggests that models involving the four determinants do not suffer from multicollinearity. For the reputation indicators, we find that firms with a high trustworthiness (attractiveness) do not necessarily have a high attractiveness (trustworthiness). This observation is in line with our theoretical distinction between these two reputation aspects. For instance, among the 424 firm-year observations, we obtain 20 high-trustworthiness, low-attractiveness observations defined as those with a *Trustworthiness* score in the highest 25 percentile and an *Attractiveness* score in the lowest 25 percentile, and 32 low-trustworthiness, high-attractiveness observations defined in the opposite way. The high trustworthiness/low attractiveness firms include companies like the utility companies Kepco (Korea) and Enel (Italy), Air France, and telecommunications provider Telenor. The high trustworthiness of these companies may be based on the relatively focused nature of their businesses. Because of this focused nature, the identities of these firms might be transparent to the general public, which may help the public to determine the motives of these firms. However, due to the fact that these firms are involved in fewer product or service categories, they are only recognized and approached by specific groups, thus it is harder for them to generate a high attractiveness at a broader level. The low-trustworthiness/high-attractiveness observations, on the other hand, are mainly large conglomerates like the Brazilian industrial conglomerate Votorantim and Swiss-Swedish engineering conglomerate ABB. These firms implement a diversified strategy, which might allow them to make better use of the resources of a core business (Rumelt 1982) or to share resources across businesses (Chatterjee and Wernerfelt 1991). Since their businesses are successful in different fields, the general public may hold a good feeling regarding their strengths and capabilities. However, with a high diversification, managers of these firms may add businesses to increase their private benefits, which will cause an agency problem (Jensen 1986). Such a problem makes it hard for stakeholders to determine what these firms stand for and how to position them, leading to a lack of clarity on firms'

motives which may explain the relatively low trustworthiness. These examples show that our measures of *Trustworthiness* and *Attractiveness* using regression residuals seem to have the face validity.

4.4.2 Model Specification

To investigate the hypotheses addressed in Section 3, we apply the leverage determination model as in Rajan and Zingales (1995), and then analyze whether the effects of different determinants are strengthened or weakened when incorporating corporate reputation.

To illustrate the impact of corporate reputation, we make the scatter plot between *Market Value Leverage* and *Market-to-Book Ratio* for high and low reputation firms [3] and plot the fitted lines respectively. We consider two reputation measures: *Trustworthiness* and *Attractiveness* (see the plots in Figure 6). We observe that the general negative relation between *Market-to-Book Ratio* and *Market Value Leverage* is weakened for those firms with higher *Trustworthiness*, while the plot on *Attractiveness* shows an opposite moderation effect. The difference between the plots illustrates the prediction of our theory that the two dimensions of reputation play different roles in reducing investors' uncertainty.

In order to formally test our theory, we follow the leverage determination model in Baker and Wurgler (2002) as

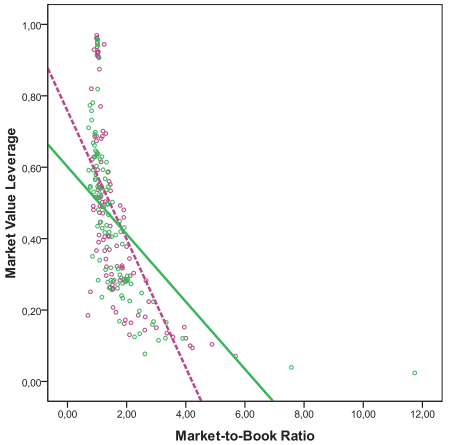
$$MVL_i = \beta_0 + \beta_1 MTB_i + \beta_2 PRO_i + \beta_3 AT_i + \beta_4 \log(NS_i) + \varepsilon_i . \qquad (1)$$

Here the ε_i is a well-behaved error item. We expect to observe that the coefficients of the four financial determinants are consistent with aforementioned predictions. We then introduce *Trustworthiness* and *Attractiveness* into this model as moderation factors. This procedure helps to identify that by excluding the common information (i.e. *Pulse score*), whether the two aspects of reputation, Trustworthiness and Attractiveness have different impacts on reducing investors' uncertainty. Then we modify the model (1) as follows.

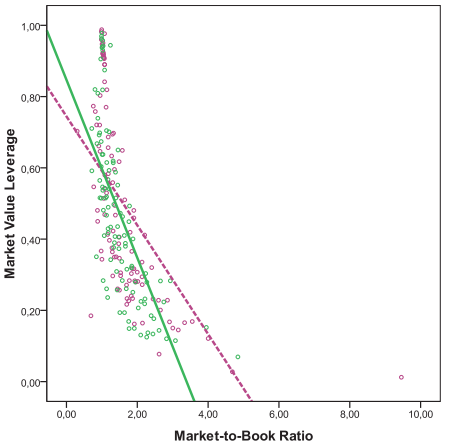
[3] High reputations are defined as those above the 75 percentile of all reputation measures, while low reputations are those below the 25 percentile.

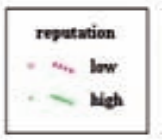
Figure 6. Moderation Effects of Trustworthiness and Attractiveness on Leverage Determination Market-to-Book Ratio

a) Moderation effects of Trustworthiness



b) Moderation effects of Attractiveness





$$\begin{aligned} MVL_i = \; & \beta_{0,1} + \beta_{1,1} MTB_i + \beta_{2,1} PRO_i + \beta_{3,1} AT_i + \beta_{4,1} \log(NS_i) \\ & + \beta_{0,2} Trustworthiness_i + \beta_{1,2} MTB_i * Trustworthiness_i \\ & + \beta_{2,2} PRO_i * Trustworthiness_i + \beta_{3,2} AT_i * Trustworthiness_i \\ & + \beta_{4,2} \log(NS_i) * Trustworthiness_i + \varepsilon_i \end{aligned} \qquad (2)$$

where the *Trustworthiness* can be replaced by *Attractiveness* when testing the effects of each dimension. We expect that the coefficients of the interactions items present the signs as we predicted in Section 3.1.

The last attempt is to investigate the impacts of reputation attributes (i.e. RepTrak™ dimensions) on the leverage determination model. Substituting the *Trustworthiness* in model (2) by the residuals of the seven RepTrak™ dimensions (i.e. *Products*, etc.) respectively clarifies this issue, and empirically tests our predictions in Hypothesis 2.

4.5 Results

Our theory predicts that *Trustworthiness* and *Attractiveness* should present opposite moderation effects on the leverage determination model as summarized in Hypothesis 1. We first focus on the significances and the signs of the moderation effects, i.e. $\beta_{j,2}$, for $j = 1,2,3,4$ in model (2). By comparing the signs of the coefficients in two models with *Trustworthiness* and *Attractiveness* respectively, we form a brief view on the validity of our hypothesis. Moreover, in model (2) the coefficient of the determinant *Market-to-Book Ratio* is $\beta_{1,1} + \beta_{1,2} Trustworthiness_i$ (and a corresponding equation applies to the model that includes *Attractiveness*). Similarly, we can get the coefficients of the other determinants. Then, by estimating the model, we could quantitatively evaluate the impact of each determinant on the leverage level conditional on different levels of reputation or reputation dimensions. The quantitative analysis helps justify the economic significances of the moderation effects. We first present the signs of the moderation effects in the results, then analyze the quantitative effects. In addition, we identify different moderation effects of the key factors of reputation, as addressed in Hypothesis 2.

4.5.1 The Moderation Effects of Trustworthiness and Attractiveness

We start by considering the original finance model (1). The result is in the first column of Table 12. It suggests that growth and profitability have a significant negative impact on *Market Leverage Level* at the 0.01 confidence level, while *Asset Tangibility* has a significant positive impact. This result is consistent with the predictions and empirical results in Rajan and Zingales (1995). However, *Net Sales* does not show a significant effect on leverage as suggested in literature. [4] The leverage determination model (1) fitted by our dataset is considered as the benchmark, and we further evaluate the models with the measures on reputation dimensions.

When introducing the interaction with reputation dimensions, we observe a significantly positive moderation effect of *Trustworthiness* on *Asset Tangibility* and a significantly negative moderation effect of *Attractiveness* on *Market-to-Book Ratio* both at the 0.05 confidence level. Notice that the original impacts of *Asset Tangibility* and *Market-to-Book Ratio* on the leverage level are positive and negative, respectively. We conclude that *Trustworthiness* strengthens the impact of *Asset Tangibility* and *Attractiveness* strengthens the impact of *Market-to-Book Ratio*. These observations confirm our prediction in Hypothesis 1 that Trustworthiness and Attractiveness reduce investors' uncertainties from different aspects. However, except the two observed moderation effects, the other interaction terms are not significant as predicted in our conjecture.

The second approach is to quantify the impacts of the determinants conditional on the reputation dimensions. We only consider the significant moderation effects (i.e. *Trustworthiness* on *Asset Tangibility*, *Attractiveness* on *Market-to-Book Ratio*). By a quantitative analysis, we assess how much the high and low reputation firms differ.

We enter specific *Trustworthiness* or *Attractiveness* values to identify the economic impacts of reputation dimension. The 25th and 75th percentiles of *Trustworthiness* (i.e. -0.8 and 0.82) are employed as the conditioning levels of the low and the high trustworthiness. By setting *Trustworthiness* to -0.8, we get the coefficient of *Asset Tangibility* as 0.044. Considering a one-standard deviation shock on *Asset Tangibility*, i.e. increasing or decreasing *Asset Tangibility* by 0.2129, the corresponding leverage change is then 0.9%.

[4] One potential explanation of the insignificance of size is that only large firms are considered in constructing the reputation data. Thus, the firms in our sample are among the 600 largest firms in the world, which may weaken the effect of size on the leverage level.

Table 12. Moderation effects of *Trustworthiness* and *Attractiveness* by OLS

	Model 1	Model 2	Model 3
1 (Constant)	,69**	,65**	,67**
	(,10)	(,10)	(,10)
Market-to-Book Ratio	-,05**	-,05**	-,059**
	(,01)	(,09)	(,09)
Profitability	-2,01**	-1,96**	-1,94**
	(,13)	(,12)	(,13)
Asset Tangibility	,10**	,10*	,10*
	(,04)	(,04)	(,04)
Net Sales	,01	,01	,01
	(,01)	(,01)	(,01)
2 Trustworthiness		-,12.	
		(,07)	
3 Attractiveness			-,04
			(,09)
Interaction with Market-to-Book Ratio		,01	-,02*
		(,01)	(,01)
Interaction with Profitability		-,02	,09
		(,09)	(,09)
Interaction with Asset Tangibility		,07*	,04
		(,03)	(,03)
Interaction with Net Sales		,01	,00
		(,01)	(,01)
R Squared	,62	,63	,64
F-test	173,05**	78,84**	81,63**

a Dependent variable: Market Value Leverage.

b . p< 0.1; * p< .05; ** p< .01.

Compared to the standard deviation of *Market Value Leverage*, 24.04%, it is a negligible effect. It suggests that the determining effect of *Asset Tangibility* on the leverage level is diminished for firms with low trustworthiness.

However, when setting the *Trustworthiness* to 0.82, the coefficient of *Asset Tangibility* is 0.1574. In this case, a one standard deviation shock on *Asset Tangibility* corresponds to a leverage change of 3.4%. The economic significance is considerable. Therefore, *Asset Tangibility* is a significant determinant of the leverage level only for firms with high trustworthiness. This is in line with our theory that more trustworthy firms have more incentive in following the pecking order strategy by using tangible asset to collateral for obtaining more debt capital. Such a trustworthy behavior corresponds to a lower financing cost.

A similar approach on *Attractiveness* suggests different effects on *Market-to-Book Ratio*. By conditioning on the 75 percentile and 25 percentiles of *Attractiveness* (i.e. 0.82 and -0.84), we get the

corresponding coefficients of *Market-to-Book Ratio* as -0.07 and -0.04. As a result, a one standard deviation shock on *Market-to-Book Ratio* corresponds to leverage changes of 8.3% and 5.1%. Compared to the standard deviation of *Market Value Leverage*, these effects are economically significant and the difference is considerable. Therefore, *Market-to-Book Ratio* is a significant determinant of the leverage level for both firms with high and low *Attractiveness*. However, for firms with a high *Attractiveness* the determining effect is higher. This is in line with our theory that more attractive firms can use growth opportunities to attract more equity financing, which indicates a higher flexibility in choosing different financing instruments.

In sum, the results from our regression analysis partially confirm our Hypothesis 1 in predicting the moderation effects of trustworthiness and attractiveness. The bottom-line is that trustworthiness and attractiveness present different moderation effects on the capital structure determinants. This is due to the fact that they generate different competitive advantages.

4.5.2 The Moderation Effects of the Seven Key Factors

The regression results on the seven reputation dimensions are shown in Table 13. Table 14 further highlights the significances and signs of the interaction terms with leverage determinants, as well as the comparison with the results of *Trustworthiness* and *Attractiveness*.

From Table 13, we observe that the moderation effects of the reputation dimensions can be categorized into two groups. Within the same group, the reputation dimensions present similar patterns, while the impacts of the dimensions across groups are different.

GROUP 1: *Performance*, *Leadership*, *Products* and *Innovation*. They weaken the negative effect of *Profitability*, while *Products* and *Innovation* also strengthen the positive effect of *Asset Tangibility*.

GROUP 2: *Citizenship*, *Workplace* and *Governance*. They weaken the negative effect of *Market-to-Book Ratio*, while *Citizenship* and *Workplace* also strengthen the negative effect of *Profitability*.

Table 13. Moderation effects of reputation dimensions by OLS

	Model 1	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
1 (Constant)	,69**	,63***	,65**	,64**	,62**	,53**	,65**	,61**
	(,10)	(,10)	(,10)	(,10)	(,09)	(,09)	(,10)	(,10)
Market-to-Book Ratio	-,05**	-,05***	-,07**	-,07**	-,05**	-,05**	-,06**	-,05**
	(,01)	(,09)	(,01)	(,01)	(,01)	(,01)	(,01)	(,01)
Profitability	-2,01**	-1,96***	-1,86**	-1,93**	-1,90**	-1,71**	-1,97**	-2,00**
	(,13)	(,13)	(,12)	(,13)	(,12)	(,13)	(,13)	(,13)
Asset Tangibility	,10**	,09*	,11**	,10*	,11**	,02	,10*	,10*
	(,04)	(,04)	(,04)	(,04)	(,04)	(,05)	(,04)	(,04)
Net Sales	,01	,01	,01	,02.	,01.	,02**	,01.	,02.
	(,010)	(,01)	(,01)	(,01)	(,01)	(,01)	(,01)	(,010)
4 Performance		-,01						
		(,02)						
5 Citizenship			-,04.					
			(,02)					
6 Workplace				-,03.				
				(,02)				
7 Products					-,08**			
					(,02)			
8 Innovation						-,07**		
						(,02)		
9 Governance							-,04*	
							(,02)	
10 Leadership								-,04.
								(,02)
Interaction with Market-to-Book Ratio		,00	,01**	,01**	,00	-,00	,01*	,00
		(,00)	(,00)	(,00)	(,00)	(,00)	(,00)	(,00)
Interaction with Profitability		,06**	-,14**	-,05.	,05.	,12**	-,01	,05.
		(,02)	(,03)	(,03)	(,03)	(,02)	(,03)	(,03)
Interaction with Asset Tangibility		-,00	-,01	,01	,05**	,02.	,01	-,00
		(,01)	(,01)	(,01)	(,01)	(,01)	(,01)	(,01)
Interaction with Net Sales		,00	,01*	,00	,00.	,00.	,00	,00
		(,00)	(,00)	(,00)	(,00)	(,00)	(,00)	(,00)
R Squared	,62	,65	,65	,64	,69	,69	,64	,64
F-test	173,05**	83,77**	86,76**	80,85**	100,48**	102,00**	80,32**	82,26**

a Dependent variable: Market Value Leverage.

b . p< 0.1; * p< .05; ** p< .01

It is clear that the moderation effects in the two groups are in different directions, particularly on *Profitability*. Specifically, the moderation effects of the dimensions in Group 2 are all consistent with our conjecture on the effect of trustworthiness. For the attributes in Group 1, the weakening effect on *Profitability* is in line with our conjecture on the effects of attractiveness. However, a subgroup, *Products* and *Innovation*, strengthens the positive effect of *Asset Tangibility*, which is in line with our conjecture on the effects when both *Trustworthiness* and *Attractiveness* are high.

The results on the reputation dimensions provide further evidence supporting our theory. For instance, in the analysis of *Trustworthiness*, we do not observe the weakening effect on *Market-to-Book Ratio* and the strengthening effect on *Profitability*. The impacts of the dimensions in Group 2 fill this gap. Similarly, the weakening effect of attractiveness on *Profitability* is now demonstrated by the determinants in Group 1. The categorization of reputation determinants suggests that they play different roles in capital structure management, and the difference matches our predictions. Specifically, the dimensions in Group 2 stand on the *Trustworthiness* side. The only exception is the subgroup of Group 1 consisting of *Products* and *Innovation*. From the empirical result, they present moderation effects predicted by combining a high *Trustworthiness* and a high *Attractiveness*. Therefore, we further divide Group 1 into Group 1a: *Performance* and *Leadership*, which are considered as the dimensions in line with *Attractiveness*; and Group 1b: *Products* and *Innovation*, which are in line with both *Attractiveness* and *Trustworthiness*.

Table 14. Moderation effects identification

		Sign of Significant Coefficients			
		Market-to-Book Ratio	Profitability	Asset Tangibility	Net Sales
Original Effects		-**	-**	+**	
Moderation Effects	**Trustworthiness**			+*	
	Attractiveness	-*			
	Performance		+**		
	Citizenship	+**	-**		+*
	Workplace	+**	-.		
	Products		+.	+**	+.
	Innovation		+**	+.	+.
	Governance	+*			
	Leadership		+.		

a Dependent variable: Market Value Leverage.

b . p< 0.1; * p< .05; ** p< .01.

The empirical results of the seven reputation dimensions are consistent with our conjecture on how they are associated with *Trustworthiness* and *Attractiveness*. Therefore, we label the reputation dimensions according to their roles in the capital market: *performance* and *leadership* represent a firm's "strategy"; *citizenship*, *workplace* and *governance* reflect a firm's "legitimacy"; *products* and *innovation* indicate a firm's "capability". We further employ the principle component analysis with Varimax rotation on the seven reputation determinants. We extract the first three components, which account for 75 percent of the total variation. Each component is defined by a group of determinants with high loadings which are consistent with our categorization. That is, *performance* and *leadership* load highly on component 1 and low on the others; *products* and *innovation* load highly on component 2 and low on the others; and *citizenship*, *workplace*, and *governance* load highly on component 3 and low on the others. So component 1 reflects "strategy", component 2 reflects "capability" and component 3 reflects "legitimacy". We regard these newly constructed components as three reputation drivers that help form the corporate reputation in capital market.

4.6 Discussion

Our study addresses two fundamental uncertainty problems between firms and investors: Uncertainty about a firm's motives and uncertainty about a firm's capability. These uncertainties correspond to management and business risks to investors, respectively, and cause different barriers to a firm competing in the capital market: A high financing cost and an inflexibility in choosing financing instruments. We then clarify the strategic role of corporate reputation as an intangible resource, in reducing investors' uncertainties. We define two reputation aspects: Trustworthiness and Attractiveness. One reveals firms' motives to behave towards investors' welfare and the other explains the formation of investors' confidence on a firm's ability. By theorizing these two reputation aspects as two distinct intangible resources, we identify that the former resource mainly yields the competitive advantage of holding a general low financing cost, while the later dimension creates the competitive advantage of flexibility for choosing financing instruments. By achieving lower uncertainties, both dimensions enhance the competitive advantages to a firm in the capital market.

We contribute to the reputation literature by distinguishing the two different aspects of reputation, and empirically identifying their distinct roles in capital structure management. As emphasized by Pfarrer

et al. (2010), different types of perceptions may have different effects, and these effects can be predicated by theoretically notions. While they focus on the effects of reputation versus celebrity, our concern is with the different impacts of distinct reputation aspects. Although previous studies generally address the competitive advantages generated by a good reputation, this paper further distinguishes two reputation aspects, and clarifies the theoretical mechanism through which they reduce different uncertainties in the capital market. Our results suggest that to simply consider reputation as an overall evaluation may obscure its value in creating different competitive advantages. Because the underlying driving forces of trustworthiness and attractiveness are different, they function through distinct mechanisms and their values for generating behavioral intentions are different. Therefore, it may be useful in future research to explore the impacts of different aspects of trustworthiness and attractiveness on other markets or management issues.

This study also provides empirical evidence to explain the bounded rationality among investors in the capital market. Under the assumption of rationality in the classical finance theory, investors only use technical fundamentals to make investment decisions. However, behavior finance scholars tend to indicate that other factors are often used by investors to gauge the value of securities. From a psychological perspective, such a behavior can be explained by bounded rationality (Arthur 1994; Kahneman 2003). Attractiveness associated with a certain firm is a powerful basis to judge its capability, which can be considered by investors as such an additional factor to assess the value of the firm's securities. MacGregor *et al.* (2000) point out that affect is part of a coherent psychological framework for the way in which investors evaluate an investment. Our findings support the view that an emotional factor such as attractive reputation can influence investors' judgments.

Studying the impact of the key factors associated with trustworthiness and attractiveness provides management guidelines, because these key factors refer to the fundamental attributes that managers can influence. Our results suggest that managers should improve relevant specific aspects of reputation in order to gain competitive advantages for their firms in the capital market. Although it is in the firm's best interest to improve its reputation in general, it is not costless to engage in reputation management behaviors. Therefore, under budget or capacity constraints, it is useful to understand which reputation aspects are most likely to produce a competitive advantage on demand. A firm that intends to obtain flexibility in choosing different financing instruments may try to increase its attractiveness by establishing its reputation on those associated key factors, such as leadership and performance. This strategy could be beneficial to new firms: although as new players in the capital market, it is hard for

them to build up a reputation on trust, which requires a consistent behavior in a long run. Attractiveness may still provide them the opportunity of being highly-valued by investors, which gives the firm more access to external funds to capture growth opportunities, for example, a committed and respected leader, who has a good reputation for past achievements and is personally involved in investor relations (Mazzola *et al.* 2006). Another key issue is to maintain a profitable performance and to present the potential to develop in the future.

On the other hand, firms that strive to achieve a low financing cost can improve their reputation for trustworthiness by strengthening their reputations on citizenship, workplace and governance. In general, these aspects imply three types of choices: 1) supporting good causes and environmental responsibility; 2) offering fair rewards and career development opportunities to employees; 3) high transparency and openness of a firm.

In addition, because the reputation dimensions products and innovation play a role in reducing uncertainty by both reducing uncertainty on a firm's motives and uncertainty on a firm's ability, strengthening these two dimensions may have twofold benefits for a firm's capital structure management. By obtaining competitive advantages on a low financing cost and a great flexibility, the firm may balance the pros and cons of the pecking order strategy according to its needs.

In a similar study on the role of reputation in the financial market, Mazzola *et al.* (2006) examine reputation formation in financial markets by interviewing financial analysts. They find slightly different reputation attributes compared to ours. Two attributes in their results, "strategic plans" and "leadership" are in line with our "strategy" dimension. Their "internal control systems" construct functions similarly to our dimension on "legitimacy". However, in addition to the three attributes in their study, we find that "capacity", the core value creation indicator of a firm, is also widely considered by firm constituents. This suggests that a reputation for good products and services could generate attractiveness, in contrast to Gabbioneta *et al.*'s (2007) findings. Although the different results may be attributed to the distinct data and research methods, we argue that products and innovation are the key indicators of potential earnings in the future, which are indispensable for creating a reliable image of a firm in order to attract investors.

We are aware of potential limitations our data may suffer from. First, although it is documented that reputation formed among the general public has an impact on stakeholders' perception, the impacts may differ from that of reputation formed among investors. Since the reputation data we employ are obtained from surveys among the general public, our results might have been different if we had

measured corporate reputation perceived among investors. Nevertheless, by employing the current data, we observe significant impacts of reputation on reducing different types of investor uncertainties and on the capital structure determination model. For future research, a reputation dataset based on a survey among investors may further contribute to identify the role of reputation. Second, we measure the two reputation aspects, *Trustworthiness* and *Attractiveness,* by a single item. Rossiter (2002) suggests that if an attribute has virtually unanimous agreement by raters as to what it is, and they clearly understand that there is only one characteristic being referred to when the attribute is posed, there is no need to use more than a single item to measure it in the scale. Since these two reputation aspects are abstract attributes, it is likely that a single-item measure is not sufficient. However, our results suggest that the single-item measured *Trustworthiness* and *Attractiveness* are capable of identifying the different impacts of these two reputation aspects. For future research, a different approach on measuring these aspects may help to examine the consistency of the results.

CHAPTER 5

DISCUSSION AND CONCLUSION

5.1 Introduction

Corporate reputation is particularly important for firms' long-term performance and competitive advantages (e.g. Fombrun and Shanley 1990; Roberts and Dowling 2002; Rindova, Williamson and Petkova 2010). In an effort to understand the importance of the different aspects of corporate reputation, extant research has considered not only various conceptualizations of reputation, but also its various antecedents and consequences. This dissertation contributes to the multifaceted conceptualization of reputation (1) by examining different economic values of overall corporate reputation and its pre-condition—visibility—in Study 1, (2) by considering reputation among different stakeholders—public stakeholders and financial stakeholders—in study 2, and (3) by distinguishing two dimensions of financial reputation—trustworthiness and attractiveness—in Study 3. Acknowledging this multifaceted conceptualization of corporate reputation is crucial for firms to develop an effective strategy for reputation management, and further achieving competitive advantages in competitions.

In addition, this dissertation attempts to advance the understanding of the antecedents of reputation by investigating various organizational and managerial antecedents with respect to different reputation dimensions. Although some research proposes various determinants of corporate reputation (e.g. Fombrun and Shanley 1990; Fombrun, Grardberg and Sever 2000; Rindova, Williamson, Petkova *et*

al. 2005), these antecedents are hardly identified with respect to different stakeholder groups. Especially regarding the financial stakeholders, it is still unclear what the driving forces of a positive perception are. By considering these antecedents more thoroughly, I aim to advance the understandings of the factors that influence different types and dimensions of corporate reputations. Study 2 and Study 3 in this dissertation approach this research question from different angles. Study 2 solely focuses on different types of corporate social performances, and their respective roles in determining the perception among public and financial stakeholders. Study 3 explores a broader set of organizational and managerial antecedents (e.g. products, performance, etc.), and clarifies their importance in driving trustworthiness and attractiveness, respectively.

Last but not least, this dissertation examines the consequences of different reputation dimensions with respect to different types of financial performance. Study 1 develops a portfolio study to examine stock market performances of reputable firms. Although existing research has examined the corporate reputation-corporate financial performance linkage, they rarely use the equity performance approach, which is more directly linked to the value of financial stakeholders. Such an approach captures all the channels through which an intangible asset may contribute to the market value of a firm (Edmans 2011), and provides the possibility to evaluate the risk-adjusted performance of a firm which is highly important for financial stakeholders (Becchetti, Ciciretti and Hasan 2007). Therefore, Study 1 in this dissertation addresses this literature gap. Study 2 and Study 3 further extend this discussion by considering two other approaches, the free cash flow and the capital structure management approach, respectively. All in all, these studies provide additional evidence to explain the relationship between corporate reputation and financial performance from different angles.

In the next section, I will summarize the main findings and contributions of each of the three studies and then I will highlight the overarching theoretical contributions of this dissertation. It is continued with a presentation of the managerial implications of this dissertation. Then, I will discuss the overall limitations of this dissertation and the potential suggestions for future research. In the last section, I provide a brief conclusion of this dissertation.

5.2 Primary Findings and Contributions

This dissertation highlights several important findings. The overarching finding across the studies is that reputation management contributes to both attracting financial stakeholders and achieving a superior financial performance of the corporation. Each study elaborates this general insight by making its own important findings.

Study 1 finds that a high visibility leads to a higher total risk and idiosyncratic risk to firms, but not a higher expected stock return. On the contrary, a higher generalized reputation endows lower risk to a firm, without lowering expected stock return. The risks of less visible firms stand in the middle of the "risk spectrum". They are higher than those of reputed firms, but lower than those of less reputed firms. These findings are in line with the viewpoint of Pfarrer, Pollock and Rindova (2010) that visibility alone cannot form a firm's reputation. It also supports the behavioral finance theory that investors on the representativeness-based heuristic that stocks of good companies are representative of good stocks (Shefrin and Statman 2000; Helm 2007; Statman, Fisher and Anginer 2008). To my knowledge, this study is the first to elaborate the understanding of the impact of visibility and reputation as risk reduction proxies (specifically, idiosyncratic risks) on decision making processes among investors. The robust results on a negative relation between reputation and idiosyncratic risk support the importance of reputation management for risk-reduction.

The contributions of study 2 are twofold. First, I find that public reputation affects financial performance partially through the mediator of financial reputation. As a contribution of this study, it empirically clarifies the distinct roles of reputations among different stakeholders. Although a number of studies have addressed corporate reputation from this perspective in the management literature (e.g., Deutsch and Ross 2003; Rindova, Williamson, Petkova *et al.* 2005; Love and Kraatz 2009), they did not provide empirical studies examining the impacts of these beliefs simultaneously or identify the relationship between reputations perceived among different stakeholders. My work extends this research stream by introducing the distinction between the expectations of financial stakeholders and public stakeholders to the framework of reputation management. It provides a new angle by examining reputation among different groups of corporate constituents empirically. Second, my results suggest that different corporate social activities affect financial performance differently, depending on the mediation effects of either public reputation or financial reputation. I extended Carroll's model by distinguishing the four types of corporate social performance (i.e. economic, legal, ethical and philanthropy) with respect to

the interests of different stakeholder groups. On the one hand, a distinction between fundamental and broader corporate social performances corresponds to the distinct expectations of public and financial stakeholders, respectively. On the other hand, the distinction between legitimacy and distinctiveness corresponds to basic requirements regarding corporate social commitments and value creation potential of non-required corporate social performance activities. Such a distinction is rarely associated with typologies of corporate social performance.

The findings of study 3 clarify the strategic role of corporate reputation as an intangible resource in reducing investors' uncertainties. They suggest that trustworthiness enhances investors' expectations regarding a firm's motives, and gains the firm a competitive advantage from holding a low financing cost. Attractiveness, on the other hand, reduces investors' uncertainty regarding a firm's ability, and generates the firm a competitive advantage from a great flexibility in choosing different financing instruments. This study advances the reputation literature in distinguishing the two different aspects of reputation, and empirically identifying their distinct roles in capital structure management. I conclude from the results that to simply consider reputation as an overall evaluation may obscure the understanding of its value in creating different competitive advantages. Because the underlying driving forces of trustworthiness and attractiveness are different, they function through distinct mechanisms and their values for generating behavioural intentions are different. Studying the impact of the key factors associated with trustworthiness and attractiveness, I find that leadership and performance contribute to obtaining flexibility in choosing different financing instruments by increasing attractiveness. On the other hand, firms that strive to achieve a low financing cost can improve their reputation for trustworthiness by strengthening their reputation for citizenship, workplace and governance. In addition, because the reputation dimensions products and innovation play a role in reducing uncertainties both regarding a firm's motives and capabilities, strengthening these two dimensions may have twofold benefits for a firm's capital structure management.

5.3 Overarching Theoretical Contributions

This dissertation uncovers the "black box" of the corporate reputation-corporate financial performance linkage through examining the mechanism through which reputation influences financial stakeholders. Specifically, building on the agency theory, signalling theory, behavioral finance theory, stakeholder

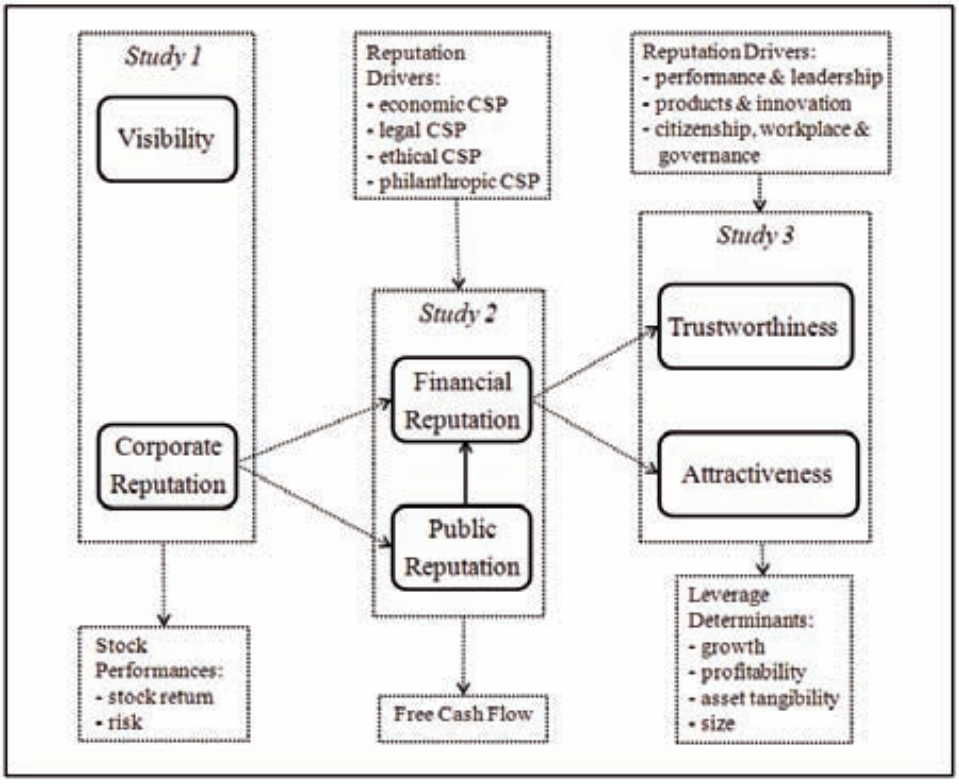
theory and resource-based perspective, this dissertation explains the importance of corporate reputation in attracting financial stakeholders from different angles. Thus, the main contributions are to conceptualize corporate reputation with regard to financial stakeholders, and to examine the mechanisms from a good reputation to a superior financial performance through the perception formation of financial stakeholders.

The conceptualization of corporate reputation is carried out in two steps. The first step is to distinguish the perceptions among financial stakeholders from those among other stakeholders. Because the interests of these types of stakeholders are distinct, their different beliefs and expectations regarding a firm's future lead to the distinction of reputations among them. Therefore, in this aspect, I conceptualize reputation as expectations regarding an organization's consequences and outputs among different groups of perceivers, and the predictions by these groups of perceivers regarding the extent to which the focal organization will meet those expectations. Corporate reputation among a stakeholder group, correspondingly, can be regarded as a result of evaluations by this stakeholder group regarding the likelihood that a firm can meet their specific needs. In the second step, I further distinguish financial reputation into two dimensions: as a belief about a firm and as an affect towards a firm, labelled as trustworthiness and attractiveness. On the one hand, the trustworthiness perspective refers to stakeholders' cognitions on different aspects of a firm. They develop when interactions between stakeholders and the firm accumulate. When positive beliefs are established, investors will hold the perception that firms are committed to behave towards their interests. Thus, a reputation for trustworthiness reflects stakeholders' rational evaluations of a firm's motives over time. On the other hand, attractiveness refers to a feeling which creates a temporary "irrationality" about a firm's ability. When a firm evokes such a good feeling among its stakeholders, financial stakeholders are likely to commit to positive behaviours towards the firm. Such a hierarchical conceptualization of corporate reputation contributes to an advanced understanding of financial reputation in terms of its features and its distinctiveness.

This dissertation also highlights the mechanisms by which a good reputation transforms to a superior financial performance. Stemming from the fundamental information asymmetries between financial stakeholders and firms, financial stakeholders suffer from management and business risks at contracting. As a consequence, investors would demand a risk premium to compensate for the uncertainties of their investment, which generates a financing barrier to a firm for its accessibility to capital. Thus, I fit the role of financial reputation in the context of the agency problem to explain the causal chain through which these uncertainties are reduced and the risks are mitigated. Particularly, I identified the mediating role of financial reputation in the mechanism through which public reputation

affects financial performance, which contributes to the understanding of how reputations among different stakeholder groups affect financial performance differently.

Figure 7. Research framework for this dissertation



A combination of these understandings draws a complete picture of the economic value of financial reputation to both firms and investors. The main theoretical lens that this dissertation has utilized the stakeholder theory, which explains the ambiguous relationship between corporate reputation and financial performance documented in literature. Figure 7 presents the research framework for this dissertation.

5.4 Managerial Implications

This dissertation has several managerial implications. Although it is in the firm's best interest to improve its reputation in general, it is not costless to engage in reputation management behaviors. Therefore, under budget or capacity constraints, it is useful to understand which reputation aspects are most likely to produce a demanding competitive advantage, and which activities can significantly alter the perceptions of stakeholders on those relevant aspects.

Overall, this dissertation informs managers how to manage reputation among different stakeholder groups to create distinct competitive advantages to a firm. Especially, to form a positive perception among financial stakeholders, managers can either target at improving the firm's performance on some reputation determinants, such as corporate social performance, or focus on influencing the perceptions among public stakeholders. The latter choice provides managers with an alternative manner to attract investors indirectly, and generates more flexibility to managers in stakeholder management. Managers may choose to engage in particular corporate social initiatives, in order to enhancing the firm's relationship with certain stakeholder groups and reaping financial benefits. More specifically, committing to philanthropic corporate social activities can form favorable perceptions among financial stakeholders, while engaging in strengthening economic social performance and avoiding negative legal and ethical social performance are likely to lead to positive perceptions among public stakeholders. These efforts will further influence financial stakeholders positively. The findings regarding the relationship between corporate social performance and corporate reputation are in support of the importance of corporate social commitment.

In addition, this dissertation provides management guidelines with respect to firms with different statuses. As new players in the capital market, it is hard for new firms to build up a reputation for trustworthiness, which requires consistent behaviour in the long run. Thus, these firms can target at obtaining a financing flexibility in choosing different financial instruments, by establishing a reputation for the associated key factors of attractiveness, such as leadership. For example, a committed and respected leader, who has an inspiring vision of a firm's development and strategy is generally seen as attractive (Mazzola, Ravasi and Gabbioneta 2006). Because attractiveness may still provide them the opportunity of being highly valued by investors, it will generate these firms more access to external funds to capture growth opportunities. On the other hand, firms that strive to achieve a low financing cost can improve their reputation for trustworthiness by strengthening their reputations for citizenship, workplace

and governance. In general, these aspects refer to activities such as supporting good causes and environmental responsibility, offering far rewards and career development opportunities to employees, and high transparency and openness of a firm. Last but not the least, the findings in this dissertation suggests that the strengths of products and innovation play an important role in reducing uncertainties between firms and financial stakeholders. They have twofold benefits for a firm's capital structure management in terms of competitive advantages in a low financing cost and a great flexibility. Therefore, to achieve a healthy capital management and a persistent superior performance, managers need to commit to developing the advantages of products and innovations of a firm. Table 15 provides a summary of the main managerial implications.

Table 15. Main managerial implications

Main managerial implications
1. Reputation management not only implies achieving a high visibility of a firm, but also requires efforts in establishing corporate strengths, such as socially responsible activities, workplace improvement, products and innovation developments.
2. Influencing the perceptions among financial and public stakeholders positively will lead to a superior corporate financial performance.
3. To form a positive perception among financial stakeholders, managers can work through influencing perceptions among public stakeholders.
4. Committing to philanthropic corporate social activities can form favorable perceptions among financial stakeholders.
5. Engaging in strengthening economic social performance and avoiding negative legal and ethical social performance are likely to generate positive perceptions among public stakeholders.
6. To increase financing flexibility, new firms can target at establishing their reputations on the associated key factors of attractiveness, such as leadership and performance.
7. Firms that strive to achieve a low financing cost can improve their reputations for trustworthiness by strengthening their reputations for citizenship, workplace and governance.
8. Developing the advantages of products and innovations are crucial for a healthy capital management and a persistent superior performance.

5.5 Limitations and Suggestions for Future Research

While this dissertation makes several important contributions, I am aware of a number of ways in which it could be improved and advanced both from a methodological and theoretical perspective. Therefore, below, I discuss the overall limitations of this dissertation and future research opportunities.

As this dissertation aims to analyse the importance of financial reputation, it would have been preferred to investigate perceptions among financial stakeholders by a direct approach, such as interviewing institutional investors. However, we chose to use more indirect approaches due to the data availability in this dissertation. For instance, in study 2, we employed the *Fortune* ratings to represent perceptions among financial stakeholders. Since this measure is based on the aggregated perceptions among institutional investors and financial analysts, it may rule out the idiosyncratic information of individual investors, while only addressing the commonality among them. In study 3, I committed to different dimensions of the *Pulse* ratings as proxies of trustworthiness and attractiveness. Such a choice is partially supported by the findings in study 2: Public reputation contributes to influencing the perceptions among financial stakeholders effectively. Nevertheless, the impacts of public reputation may differ from that of reputation formed among financial stakeholders. Interestingly, even with employing the *Pulse* data as a proxy, we observe significant impacts of the two dimensions of reputation on the capital structure determination model. For future research, either a more direct approach, such as interviewing institutional investors directly, can be taken, or a reputation dataset based on a survey among financial stakeholders solely can be developed to identify the value of financial reputation more precisely.

In addition, this dissertation focused on a specific stakeholder group—financial stakeholders. Doing so allows for controlling for a variety of factors and is consistent with the focus on explaining the importance of corporate reputation in attracting investors. However, the other stakeholders are not distinguished in this dissertation. Rather, they are treated as one group. To gain more insight, future research may contribute to uncovering the "black box" of the corporate reputation-corporate financial performance linkage through the casual chains of other stakeholder groups. For instance, Mazzola, Ravasi and Gabbioneta (2006) and Gabbioneta, Ravasi and Mazzola (2007) have addressed this research question from the perspective of financial analysts. Because different stakeholder groups may react differently to the same strategy of a firm, an understanding on their respective values will contribute to the development of a more complete theory of corporate reputation and other social approval assets.

Chapter 5

5.6 Conclusion

This dissertation aims to advance the understanding of the relationship between corporate reputation and a company's attractiveness to financial stakeholders. Specifically, I examine the role of corporate reputation in the context of the agency problem to explain the causal chain through which the uncertainties and risks are mitigated for investors. Overall, the findings across the studies suggest that reputation management contributes to both attracting financial stakeholders and achieving a superior financial performance of the corporation. Particularly, I identified the mediating role of financial reputation in the mechanism through which public reputation affects financial performance. This result also contributes to the understanding of how reputations among different stakeholder groups affect financial performance differently.

BIBLIOGRAPHY

Aaker, D. and R. Jacobson (1987). "The role of risk in explaining differences in profitability." The Academy of Management Journal **30**(2): 277-296.

Aaker, D. and R. Jacobson (1994). "The financial information contect of perceived quality." Journal of Marketing Research **31**(2): 191-201.

Agarwal, M. K. and G. Berens (2009). "How corporate social performance influences financial performance: cash flow and cost of capital." MSI Working Paper Series **1**(09-001): 3-26.

Anderson, J. and G. Smith (2006). "A great company can be a great investment." Financial Analysts Journal **62**(4): 86-93.

Anginer, D. and M. Statman (2010). "Stocks of admired and spurned companies." Journal of Portfolio Management **36**(3): 71-77.

Anginer, D., A. J. Warburton and C. Yildizhan (September 2011). "Corporate reputation and cost of debt." Available at SSRN: http://ssrn.com/abstract=1873803.

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

Appelbaum, B., D. Hilzenrath, S. and A. Paley, R. (December 13, 2008). "All just one big lie." The Washington Post.

Arthur, W. B. (1994). "Inductive reasoning and bounded rationality." The American Economic Review **84**(2): 406-411.

Ashforth, B. E. and B. W. Gibbs (1990). "The double-edge of organizational legitimization." Organization Science **1**: 177-194.

Aupperle, K., E., A. Carroll and J. Hatfield, D. (1985). "An empirical examination of the relationship between corporate social responsibility and profitability." Academy of Management Journal **28**(2): 446-463.

Bagozzi, R. P. and Y. Youjae (1988). "On the evaluation of structural equation models." Academy of Marketing Science **16**(1): 74-94.

Baker, H. K. and J. A. Haslem (1973). "Information needs of individual investors." Journal of Accountancy **136**: 64-69.

Baker, M. and J. Wurgler (2002). "Market timing and capital structure." The Journal of Finance **57**(1): 1-32.

Barnett, M. L. (2007). "Stakeholder influence capacity and the variability of financial returns to corporate social responsibility." Academy of Management Review **32**(3): 794-816.

Barnett, M. L., J. M. Jermier and B. A. Lafferty (2006). "Corporate reputation: the definitional landscape." Corporate Reputation Review **9**(1): 26-38.

Barney, J. B. (1991). "Firm resources and sustained competitive advantage." Journal of Management **17**: 99-120.

Barney, J. B. and M. H. Hansen (1994). "Trust as a source of competitive advantage." Strategic Management Journal **15**: 175-190.

Basdeo, D. K., K. G. Smith, C. M. Grimm, V. P. Rindova and P. J. Derfus (2006). "The impact of market actions on firm reputation." Strategic Management Journal **27**(12): 1205-1219.

Bauer, R., K. Koedijk and R. Otten (2005). "International evidence on ethical mutual fund performance and investment style." Journal of Banking & Finance **29**: 1751-1767.

Beatty, R. P. and J. R. Ritter (1986). "Investment banking, reputation, and the underpricing of initial public offerings." Journal of Financial Economics **15**: 213-232.

Becchetti, L., R. Ciciretti and I. Hasan (2007). "Corporate social responsibility and shareholder's value: an event study analysis." Federal Reserve Bank of Atlanta working paper series **6**.

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

Bens, D. A., V. Nagar and M. H. F. Wong (2002). "Real investment implications of employee stock option exercises." Journal of Accounting Research **40**(2): 359-393.

Bergh, D., D. Ketchen, B. Boyd and J. Bergh (2010). "New frontiers of the reputation performance relationship: insights from multiple theories." Journal of Management **36**: 620-632.

Bibliography

Berman, S. L., A. C. Wicks, S. Kotha and T. M. Jones (1999). "Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance." Academy of Management Journal **42**(5): 488-506.

Best, R., W., C. Hodges, W. and B.-X. Lin (2011). "Analyst coverage and the diversification discount." Journal of Business and Economics Research **1**(8): 29-36.

Birkinshaw, J., A. Morrison and J. Hulland (1995). "Structural and competitive determinants of a global integration strategy." Strategic Management Journal **16**(8): 637-655.

Bloom, M. and G. T. Milkovich (1998). "Relationships among risk, incentive pay, and organizational performance." Academy of Management Journal **41**: 283-297.

Boon, S. D. and J. G. Holmes (1991). The dynamics of interpersonal trust: resolving uncertainty in the face of risk. Cooperation and prosocial behavior. R. A. Hinde and J. Groebel. Cambridge, England, Cambridge University Press**:** 190-211.

Boyd, B., D. Bergh and D. Ketchen (2010). "Reconsidering the reputation-performance relationship: a resource-based view." Journal of Management **36**: 588-609.

Brammer, S. and A. Millington (2005). "Corporate reputation and philanthropy: An empirical analysis." Journal of Business Ethics **61**(1): 29-44.

Brammer, S., C. Brooks and S. Pavelin (2006). "Corporate social performance and stock returns: UK evidence from disaggregate measures." Financial Management **35**(3): 97-116.

Brammer, S. J. and S. Pavelin (2006). "Corporate reputation and social performance: The importance of fit." Journal of Management Studies **43**(3): 435-455.

Brooks, M. E., S. Highhouse, S. S. Russell and D. C. Mohr (2003). "Familiarity, ambivalence, and firm reputation: Is corporate fame a double-edged sword?" Journal of Applied Psychology **88**: 904-914.

Brown, B. (1997). "Stock market valuation of reputation for corporate social performance." Corporate Reputation Review **1**(1): 76-80.

Brown, T. J. and P. A. Dacin (1997). "The company and the product: corporate associations and consumer product responses." Journal of Marketing **61**(1): 68-84.

Brown, B. and S. Perry (1994). "Removing the Financial Performance Halo from Fortunes Most Admired Companies." Academy of Management Journal **37**(5): 1347-1359.

Buchholtz, A. K., M. Lubatkin and H. M. O'Neill (1999). "Seller responsiveness to the need to divest." Journal of Management **25**(5): 633-652.

Burnsed, B. (Novermber 18, 2011). The greatest financial scandals: Charles Ponzi. Business Week.

Capon, N., J. U. Farley and S. Hoening (1990). "Determinants of financial performrance: A meta analysis." Management Science **36**: 1143-1159.

Carhart, M. M. (1997). "On persistence in mutual fund performance." Journal of Finance **52**(1): 57-82.

Carroll, A. (1979). "A three-dimensional conceptual model of corporate social performance." Academy of Management Review **4**: 497-505.

Carroll, A . (1991). "The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders" Business Horizon **34**(4): 39-48.

Carroll, A. B. (1999). "Corporate social responsibility: evolutino of a definitional construct." Business and Society **38**(2): 268-296.

Carter, R. and S. Manaster (1990). "Initial Public Offerings and Underwriter Reputation." Journal of Finance **45**(4): 1045-1067.

Carter, S. M. (2006). "The interaction of top management group, stakeholder, and situational factors on certain corporate reputation management activities." Journal of Management Studies **43**(5): 1145-1176.

Caruana, A. (2006). "Corporate reputation and shareholders' intentions: an attitudinal perspective." Journal of Brand Management **13**(6): 429-440.

Chatterjee, S. and B. Wernerfelt (1991). "The link between resources and type of diversification: theory and evidence." Strategic Management Journal **12**: 33-48.

Chemmanur, T. J. and I. Paeglis (2005). "Management quality, certification, and initial public offerings." Journal of Financial Economics **76**(2): 331-368.

Chin, W. W. (1998). The partial least squares approach for structural equation modeling. Modern Methods for Business Research. G. A. M. (ed.). New York, Lawrence Erlbaum Associates**:** 295-336.

Chua, R., Yong, Joo, P. Ingram and M. W. Morris (2008). "From the head and the heart: locating cognition-and affect-based trust in managers' professional networks." Academy of Management Journal **51**(3): 436-452.

Bibliography

Clarkson, M., B. E. (1995). "A stakeholder framework for analyzing and evaluating corporate social performance." Academy of Management Review **20**(1): 92-117.

Collins, J. C. (2001). Good to Great. New York, HarperCollins.

Court, A. and K. Sharman (June 10, 2009). The man who figured out Madoff's scheme, CBSNews.

D'Aveni, R. A. (1990). "Top managerial prestige and organizational bankruptcy." Organizational Science **1**(2): 121-142.

Damodaran, A. (2001). Corporate Finance: Theory and Practice. New York, N.Y.: John Wiley.

Das, T. K. and B. S. Teng (1998). "Between trust and control: developing confidence in partner cooperation in alliances." Academy of Management Review **23**(3): 491-512.

de la Fuente Sabate, J. M. and E. de Quevedo Puente (2003). "In practice: empirical analysis of the relationship between corporate reputation and financial performanc: a survey of the literature." Corporate Reputation Review **6**(2): 161-177.

Deephouse, D. L. (1997). "The effect of financial and media reputations on performance." Corporate Reputation Review **1**(1,2): 68-71.

Deephouse, D. L. (1999). "To be different, or to be the same? It's a question (and theory) of strategic balance." Strategic Management Journal **20**(2): 147-166.

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.

Deephouse, D. L. and S. M. Carter (2005). "An examination of differences between organizational legitimacy and organizational reputation." Journal of Management Studies **42**(2): 329-360.

de la Fuente Sabate, J. M. and E. de Quevedo Puente (2003). "In practice: empirical analysis of the relationship between corporate reputation and financial performanc: a survey of the literature." Corporate Reputation Review **6**(2): 161-177.

Demski, J. S. and G. A. Feltham (1978). "ECONOMIC INCENTIVES IN BUDGETARY CONTROL-SYSTEMS." Accounting Review **53**(2): 336-359.

Derwall, J., N. Guenster, R. Bauer and K. Koedijk (2005). "The eco-efficiency premium puzzle." Financial Analysts Journal **61**(2): 51-63.

Deutsch, Y. and T. W. Ross (2003). "You are known by the directors you keep: Reputable directors as a signaling mechanism for young firms." Management Science **49**(8): 1003-1017.

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

Dierkens, N. (1991). "Information asymmetry and equity issues." Journal of Financial and Quntitative Analysis **26**(2): 181-199.

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

DiMaggio, P. J. and W. W. Powell (1983). "The iron cage revisited: institutional isomorphism and collective rationality in organizational fields." American Sociological Review **48**: 147-160.

Dowling, G. R. (1994). Corporate Reputation. Melbourne, Longman Professional.

Edmans, A. (2011a). "Does the stock market fully value intangibles? Employee satisfaction and equity prices." Journal of Financial Economics **doi:10.1016/j.jfineco.2011.03.021**.

Edmans, A. (2011b). "Does the stock market fully value intangibles? Employee satisfaction and equity prices." Journal of Financial Economics **doi:10.1016/j.jfineco.2011.03.021**.

Eisenhardt, K. M. (1989). "AGENCY THEORY - AN ASSESSMENT AND REVIEW." Academy of Management Review **14**(1): 57-74.

Falkenstein, E., G. (1996). "Preferences for stock characteristics as revealed by mutual fund portfolio holdings." The Journal of Finance **51**(1): 111-135.

Fama, E., F and K. French, R (2002). "The equity premium." The Journal of Finance **57**(2): 637-659.

Fama, E., F. (1990). "Stock returns, expected returns, and real activity." The Journal of Finance **45**(4): 1089-1108.

Fama, E., F. and K. French, R. (1992). "The cross-section of expected stock." The Journal of Finance **47**(2): 427-465.

Fama, E., F. and K. French, R. (1993). "Common risk factors in the returns on stocks and bonds." Journal of Financial Economics **33**: 3-56.

Bibliography

Fama, E., F. and J. MacBeth, D. (1973). "Risk, return, and equilibrium: empirical tests." Journal of Political Economy **81**: 607-636.

Fan, X., B. Thompson and L. Wang (1999). "Effects of sample size, estimation methods, and model specification on structural equation modeling fit indexes." Structural Equation Modeling: A Multidisciplinary Journal **6**(1): 56-83.

Farber, D. B. (2005). "Restoring trust after fraud: Does corporate governance matter?" Accounting Review **80**(2): 539-561.

Ferreira, M., A. and P. A. Laux (2007). "Corporate governance, idiosyncratic risk, and information flow." Journal of Finance **62**(2): 951-89.

Fischer, E. and R. Reuber (2007). "The good, the bad, and the unfamiliar: the challenges of reputation formation facing new firms." EntrepreneurshIp Theory and Practice **31**: 53-75.

Fombrun, C. (1996). Reputation: realizing value from the corporate image. Boston, Harvard Business School Press.

Fombrun, C., N. A. Gardberg and J. M. Sever (1999). "The Reputation Quotient: a multi-stakeholder measure of corporate reputation." The Journal of Brand Management **7**(4): 241-254.

Fombrun, C. and N. A. Gardberg (2000). "Who's tops in corporate reputation?" Corporate Reputation Review **3**(1): 14-17.

Fombrun, C. and M. Shanley (1990). "Whats in a Name - Reputation Building and Corporate-Strategy." Academy of Management Journal **33**(2): 233-258.

Fombrun, C. and C. B. M. van Riel (1997). "The reputational landscape." Corporate Reputation Review **1**(1): 5-13.

Fornell, C. and F. Bookstein (1982). "Two structural equations modesl: LISREL and PLS applied to consumer exit-voice theory." Journal of Marketing Research **19**: 440-452.

Fornell, C. and D. F. Larcker (1981). "Evaluating structural equation models with unobservable variables and measurement error." Journal of Marketing Research **18**: 39-50.

Freeman, R. E., A. C. Wicks and B. Parmar (2004). "Stakeholder theory and "the corporate objective revisited"." Organization Science **15**(3): 364-369.

Friedman, M. (1970). "The social responsibility of business is to increase its profits." New York Times Magazine **September 13**: 122-126.

Frieder, L. and A. Subrahmanyam (2005). "Brand perceptions and the market for common stock." Journal of Financial and quantitative analysis **40**(1): 57-85.

Friedman (December 13, 2008). Charity caught up in Wall Street Ponzi scandal. Fox News.

Fryxell, G. E. and J. Wang (1994). "The Fortune Corporate Reputation Index - Reputation for What." Journal of Management **20**(1): 1-14.

Fu, F. (2009). "Idiosyncractic risk and the cross-section of expected stock returns." The Journal of Finance **91**(1): 24-37.

Gabbioneta, C., D. Ravasi and P. Mazzola (2007). "Exploring the drivers of corporate reputation: a study of Italian securities analysts." Corporate Reputation Review **10**(2): 99-123.

Ganzach, Y. (2000). "Judging risk and return of financial assets." Organizational Behavior and Human Decision Processes **83**: 353-370.

Gibbs, P. A. (1993). "Determinants of corporate restructuring: the relative importance of corporate governance, takeover threat, and free cash flow." Strategic Management Journal **14**: 51-68.

Gioia, D. and K. Corley (2002). "Being good versus looking good: business school ranking and the circean transformation from sustance to image." Academy of Management Learning and Education **1**(1): 107-120.

Giraldo, M. (2011). "Dynamics of analysts' coverage and the firms' information environment." International review of financial analysis **20**: 345-354.

Godfrey, P. C., C. B. Merrill and J. M. Hansen (2009). "The Relationship between Corporate Social Responsibility and Shareholder Value: an Empirical Test of the Risk Management Hypothesis." Strategic Management Journal **30**(4): 425-445.

Godfrey, P. C. (2005). "The relationship between corporate philanthropy and shareholder wealth: A risk management perspective." Academy of Management Review **30**: 777-798.

Gök, O. and H. Özkaya (2011). "Does corporate reputation improve stock performance in an emerging economy? Evidence from Turkey." Corporate Reputation Review **14**(1): 53-61.

Gotsi, M. and A. Wilson (2001). "Corporate reputation: seeking a definition." Corporate Communications: An International Journal **6**(1): 24-30.

Bibliography

Goyal, A. and P. Santa-Clara (2003). "Idiosyncratic risk matters!" The Journal of Finance **58**(3): 975-1008.

Graham, J. R. (1999). "Herding among investment newsletters: theory and evidence." The Journal of Finance **54**(1): 237-268.

Greening, D. W. and D. B. Turban (2000). "Corporate social performance as a competitive advantage in attracting a quality workforce." Business and Society **39**(3): 254-280.

Halme, M. and J. Laurila (2009). "Philanthropy, integration or innovation? Exploring the financial and societal outcomes of different types of corporate responsibility." Journal of Business Ethics **84**(3): 325-339.

Hall, R. (1992). "The Strategic Analysis of Intangible Resources." Strategic Management Journal **13**(2): 135-144.

Harris, M. and A. Raviv (1979). "OPTIMAL INCENTIVE CONTRACTS WITH IMPERFECT INFORMATION." Journal of Economic Theory **20**(2): 231-259.

Healy, P., M and K. G. Palepu (2001). "Information asymmetry, corporate disclosure, and the capital markets: a review of the empirical disclosure literature." Journal of Accounting and Economics **31**: 405-440.

Helm, S. (2007). "The role of corporate reputation in determining investor satisfaction and loyalty." Corporate Reputation Review **10**(1): 22-37.

Herbig, P., J. Milewicz and J. Golden (1994). "A model of reputation building and destruction." Journal of Business Research **31**: 23-31.

Highhouse, S., M. Brooks, E and G. Gregarus (2009). "An organizational impression management perspective on the formation of corporate reputaions." Journal of Management **35**(6): 1481-1493.

Hillman, A., J. and G. Keim, D. (2001). "Shareholder value, stakeholder management, and social issues: what's the bottom line?" Strategic Management Journal **22**: 125-139.

Hirshleifer, D. (1993). "Managerial reputation and corporate investment decisions." Financial Management **22**(2): 145-160.

Holmstrom, B. (1979). "MORAL HAZARD AND OBSERVABILITY." Bell Journal of Economics **10**(1): 74-91.

Hong, H., J. D. Kubik and A. Solomon (2000). "Secruity analysts' career concerns and herding of earnings forecasts." The RAND Journal of Economics **31**(1): 121-144.

Houston, M. and S. Johnson (2000). "Buyer-supplier contracts versus joint ventures: Determinants and consequences of transaction structure." Journal of Marketing Research **37**(February): 1-15.

Hulland, J. (1999). "Use of partial least squares (PLS) in strategic management research: A review of four recent studies." Strategic Management Journal **20**(2): 195-204.

Jensen, M. (1972). Optimal utilization of market forecasts and the evaluation of investment performance. Mathematical Methods in Investment and Finance. Szego and Shell. Amsterdam, North Holland/American Elsevier.

Jensen, M. and W. Meckling (1976). "Theory of the firm: Managerial behavior, agency costs, and ownership structure." Journal of Financial Economics **3**(305-360).

Jensen, M. (1986). "Agency costs of free cash flow, corporate finance and takeovers." American Economic Review **76**(323-339).

Jensen, M. (2002). "Value maximization, stakeholder theory, and the corporate objective function." Business Ethics Quarterly **12**: 235-256.

Kahneman, D. (2003). "Maps of bounded rationality: psychology for behavioral economics." The American Economic Review **93**(5): 1449-1475.

Kang, J.-K. and R. M. Stulz (1997). "Why is there a home bias? An analysis of foreign portfolio equity ownership in Japan." Journal of Financial Economics **46**: 3-28.

Kaplan, D. and P. Keegan (2010). "The 100 best companies to work for." Human Resource Management International Digest **18**(5): 36.

Kempf, A. and P. Osthoff (2007). "The effect of socially responsible investing on portfolio performance." European Financial Management **13**(5): 908-922.

Kourula, A. and M. Halme (2008). "Types of corporate responsibility and engagement with NGOs: an exploration of business and societal outcomes." Corporate Governance **8**(4): 557-570.

Lange, D., P. Lee and Y. Dai (2011). "Organizational reputation: a review." Journal of Management **37**(1): 153-184.

Bibliography

Leone, A., J., J. S. Wu and J. Zimmerman, L. (2006). "Asymmetric sensitivity of CEO cash compensation to stock returns." Journal of Accounting and Economics **42**(1-2): 167-192.

Lerner, L. and G. Fryxell, E. (1994). "CEO stakeholder attitudes and corporate social activity in the Fortune 500." Business and Society **33**(1): 58-81.

Love, E. G. and M. Kraatz (2009). "Character, Conformity, or the Bottom Line? How and Why Downsizing Affected Corporate Reputation." Academy of Management Journal **52**(2): 314-335.

Luo, X. and C. B. Bhattacharya (2006). "Corporate social responsibility, customer satisfaction, and market value." Journal of Marketing **70**: 1-18.

Luo, X. and C. B. Bhattacharya (2009). "The debate over doing good: corporate social performance, strategic marketing levers, and firm-idiosyncratic risk." Journal of Marketing **73**: 1-32.

Lieberman, M., B. and S. Asaba (2006). "Why do firms imitate each other?" Academy of Management Review **31**(2): 366-385.

MacGregor, D. G., P. Slovic, D. Dreman and M. Berry (2000). "Imagery, affect, and financial judgment." The Journal of Psychology and Financial Markets **1**: 104-110.

Mackey, A., T. B. Mackey and J. B. Barney (2007). "Corporate social responsibility and firm performance: investor preferences and corporate strategies." Academy of Management Journal.

MacMillan, K., K. Money and S. Downing (2002). "Best and worst corporate reputations -- nominations by the general public." Corporate Reputation Review **4**(4): 374-384.

Maignan, I. and O. C. Ferrell (2003). "Nature of corporate responsibilities: perspectives from American, French, and German consumers." Journal of Business Research **56**: 55-67.

Maignan, I. and O. C. Ferrell (2004). "Corporate social responsibility and marketing: An integrative framework." Journal of the Academy of Marketing Science **32**(1): 3-19.

Maignan, I. and D. Ralston, A (2002). "Corporate social responsibility in Europe and the U.S.: Insights from businesses' self-presentations " Journal of International Business Studies **33**(3): 497-514.

Margolis, J. D. and J. P. Walsh (2003). "Misery loves companies: Rethinking social initiatives by business." Administrative Science Quarterly **48**: 268-305.

Markopolos, H. and F. Casey (2010). No one would listen: A true financial thriller, John Wiley and Sons.

Marsh, P. (1982). "The choice between equity and debt: an empirical study." The Journal of Finance **37**(1): 121-144.

Martins, L. L. (2005). "A model of the effects of reputational rankings on organizational change." Organization Science **16**: 701-720.

Mayer, R. C., J. H. Davis and F. D. Schoorman (1995). "An integrative model of organizational trust." The Academy of Management Review **20**(3): 709-734.

Mazzola, P., D. Ravasi and C. Gabbioneta (2006). "How to build reputation in financial markets." Long Range Planning **39**(4): 385-407.

McAlister, L., R. Srinivasan and M. Kim (2007). "Advertising, research and development, and systematic risk of the firm." Journal of Marketing **71**: 35-48.

McCartney, H. (1987). "Applying fiction conflict situations to analysis of news stories." Journalism Quarterly **64**: 163-170.

McConnell, J., J and H. Servaes (1994). "Equity ownership and the two faces of debt." Journal of Financial Economics **39**(131-157).

McGuire, J. B., T. Schneeweis and B. Branch (1990). "Perceptions of Firm Quality - a Cause or Result of Firm Performance." Journal of Management **16**(1): 167-180.

McWilliams, A. and D. Siegel (1997). "The role of money managers in assessing corporate social responsibility research." Journal of Investing **6**(4): 98-107.

Mehran, H. (1995). "Executive compensation structure, ownership, and firm performance." Journal of Financial Economics **38**(2): 163-184.

Milgrom, P. and J. Roberts (1986). "Price and advertising signals of product quality." Journal of Political Economy **94**: 796-821.

Miller, K., D and P. Bromiley (1990). "Risk and corporate performance: an analysis of alternative risk measures." The Academy of Management Journal **33**(4): 756-779.

Mitchell, R., K., B. Agle, R. and D. Wood, J. (1997). "Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts." Academy of Management Review **22**(4): 853-886.

Mizik, N. and R. Jackson (2003). "Trading off between value creation and value appropriation: the financial implications of shifts in strategic emphasis." Journal of Marketing **67**: 63-76.

Bibliography

Modigliani, F. and M. H. Miller (1958). "The cost of capital, corporation finance and the theory of investment." The American Economic Review **XLVIII**(3): 262-297.

Morgensen, G. and M. W. Walsh (2008). Rush is on to prevent AIG from failing. The New York Times. **September 14**.

Myers, S., C (1984). "The capital structure puzzle." The Journal of Finance **39**(3): 575-592.

Myers, S. and N. Majluf (1984). "Corporate financing and investment decisions when firms have information investors do not have." Journal of Financial Economics **13**: 187-221.

Narayanan, M. P. (1988). "Dent versus equity under asymmetric information." Journal of Financial and Quantitative Analysis **23**(1): 39-51.

Neill, J. D., T. F. Schaefer, P. R. Bahnson and M. E. Bradbury (1991). "The usefulness of cash flow data: a review and synthesis." Journal of Accounting Literature **10**(117-150).

Newburry, W. (2010). "Reputation and supportive behavior: moderating impacts of foreignness, industry and local exposure." Corporate Reputation Review **12**(4): 388-405.

Orlitzky, M., F. Schmidt, L. and S. Rynes, L. (2003). "Corporate social and financial performance: a meta-analysis." Organization Studies **24**(3): 403-441.

Pfarrer, M., D, T. Pollock, G and V. P. Rindova (2010). "A tale of two assets: the effects of firm reputation and celebrity on earnings surprises and investors' reactions." Academy of Management Journal **53**(5): 1131-1152.

Podolny, J. M. (1994). "Market uncertainty and the social character of economic exchange." Administrative Science Quarterly **39**(3): 458-483.

Poiesz, T., B. C. (1989). "The image concept: Its place in consumer psychology." Journal of Economic Psychology **10**(4): 457-472.

Pollock, T. G., V. P. Rindova and P. G. Maggitti (2008). "Market watch: Information and availability cascades among the media and investors in the USIPO market." Academy of Management Journal **51**(2): 335-358.

Ponzi, L. J., C. J. Fombrun and N. A. Gardberg (2011). "RepTrak™ Pulse: conceptualizing and validating a short-form measure of corporate reputation." Corporate Reputation Review **14**: 15-35.

Porter, M. E. and M. R. Kramer (2002). "The competitive advantage of corporate philanthropy." Harvard Business Review **80**(December): 5-16.

Porter, M. E. and M. R. Kramer (2006). "Strategy and society: The link between competitive advantage and corporate social responsibility." Harvard Business Review **84**(12): 78-92.

Rajan, R. G. and L. Zingales (1995). "What do we know about capital structure? some evidence from international data." The Journal of Finance **L**(5): 1421-1460.

Ramnath, S., S. Rock and P. Shane (2008). "The financial analyst forecasting literature: a taxonomy with suggestions for further research." International Journal of Forecasting **24**: 34-75.

Rhee, M. and M. E. Valdez (2009). "Contextual factors surrounding reputation damage with potential implications for reputation repair." Academy of Management Review **34**: 146-168.

Rindova, V. P., A. P. Petkova and S. Kotha (2007). "Standing out: how new firms in emerging markets build reputation." Strategic Organization **5**(1): 31-70.

Rindova, V. P., T. G. Pollock and M. L. A. Hayward (2006). "Celebrity firms: The social construction of market popularity." Academy of Management Review **31**(1): 50-71.

Rindova, V. P., I. O. Williamson and A. P. Petkova (2010). "Reputation as an intangible asset: reflections on theory and methods in two empirical studies of business school reputations." Journal of Management **36**(3): 610-619.

Rindova, V. P., I. O. Williamson, A. P. Petkova and J. M. Sever (2005). "Being good or being known: An empirical examination of the dimensions, antecedents, and consequences of organizational reputation." Academy of Management Journal **48**(6): 1033-1049.

Roberts, P. W. and G. R. Dowling (1997). "The value of a firm's corporate reputation: How reputation helps attain and sustain superior profitability." Corporate Reputation Review **1**(1,2): 72-75.

Roberts, P. W. and G. R. Dowling (2002). "Corporate reputation and sustained superior financial performance." Strategic Management Journal **23**(12): 1077-1093.

Rose, C. and S. Thomsen (2004). "The impact of corporate reputation on performance: some Danish evidence." European Management Journal **22**(2): 201-210.

Rossiter, J. R. (2002). "The C-OAR-SE procedure for scale development in marketing." International Journal of Research in Marketing **19**: 305-335.

Ruef, M. and W. R. Scott (1988). "A multidimensional model of organizational legitimacy: hospital survival in changing institutional environments." Administrative Science Quarterly **43**: 877-904.

Rumelt, R. P. (1982). "Diversification strategy and profitability." Strategic Management Journal **4**(359-369).

Russo, M. V. and P. A. Fouts (1997). "A resource-based perspective on corporate environmental performance and profitability." Academy of Management Journal **3**(534-559).

Rust, R., K. Lemon and V. Zeithaml, A. (2004). "Return on marketing: using customer equity to focus marketing strategy." Journal of Marketing **68**(January): 109-124.

Sandler, L. (August 12, 2010). BP needs to cap its financial gusher, too. Business Week.

Sawilowsky, S., S. (2002). "Fermat, Schubert, Einstein, and Behrens-Fisher: the probable difference between two means when $\sigma 1 \neq \sigma 2$." Journal of Modern Applied Statistical Methods **1**(2): 461-472.

Saxton, T. and M. Dollinger (2004). "Target reputation and appropriability: picking and deploying resources in acquisitions." Journal of Management **30**: 123-147.

Sen, S. and C. B. Bhattacharya (2001). "Does doing good always lead to doing better? Consumer reactions to corporate social responsibility." Journal of Marketing research **38**(2): 225-243.

Schnietz, K., E and M. Epstein, J (2005). "Exploring the financial value of a reputation for social responsibility during a crisis." Corporate Reputation Review **7**(4): 327-345.

Schoorman, F. D., R. C. Mayer and J. H. Davis (2007). "An integrative model of organizational trust: past, present, and future." Academy of Management Review **32**(2): 344-354.

Schultz, F., J. Kleinnijenhuis, D. Oegema, S. Utz and W. van Atteveldt (2011). "Strategic framing in the BP crisis: a semantic network analysis of associative frames." Public Relations Review **doi:10.1016/j.pubrev.2011.08.003**.

Schwartz, M., S. and A. Carroll (2003). "Social responsibility: a three-domain approach." Business Ethics Quarterly **13**(4): 503-530.

Shamsie, J. "The context of dominance: An industry-driven framework for exploiting reputation", Strategic Management Journal, **24**(3), 199-215.

Shapiro, S. P. (1983). "Premiums for high quality products as returns to reputations." Quarterly Journal of Economics **98**: 659-680.

Shapiro, S. P. (1987). "The social control of impersonal trust." American Journal of Sociology **93**: 623-658.

Sharfman, M. (1996). "The construct validity of the Kinder, Lydenberg & Domini social performance ratings data." Journal of Business Ethics **15**: 287-296.

Sharfman, M. P. and C. S. Fernando (2005). Environmental risk management and the cost of capital. 65th Annual Meeting of the Academy-of-Management/Academy-of-International-Business Conference, Honolulu, HI.

Shefrin, H. and M. Statman (1995). "MAKING SENSE OF BETA, SIZE, AND BOOK-TO-MARKET." Journal of Portfolio Management **21**(2): 26-34.

Shefrin, H. and M. Statman (2000). "Behavioral portfolio theory." Journal of Financial and Quantitative Analysis **35**(2): 127-151.

Shefrin, H. (2001). "Do investors expect higher returns from safer stocks than from riskier stocks?" The Journal of Psychology and Financial Markets **2**: 176-181.

Shiller, R., J. (2003). "From efficient markets theory to behavioral finance." Journal of Economic Perspectives **17**(1): 83-104.

Shrum, W. and R. Wuthnow (1988). "Reputational Status of Organizations in Technical Systems." American Journal of Sociology **93**(4): 882-912.

Sloan, R. G. (1996). "Do stock prices fully reflect information in accruals and cash flows about future earnings." The Accounting Review **71**(3): 289-315.

Smith, C. W. and R. L. Watts (1992). "The Investment Opportunity Set and Corporate Financing, Dividend, and Compensation Policies." Journal of Financial Economics **32**(3): 263-292.

Smith, K. T., M. Smith and K. Wang (2010). "Does brand management of corporate reputation translate into higher market value?" Journal of Strategic Marketing **18**(3): 201-221.

Srivastava, R. K., T. H. Mclnish, R. A. Wood and A. J. Capraro (1997). "The value of corporate reputation: evidence from the equity markets." Corporate Reputation Review **1**(2): 62-68.

Stark, M., J. (2002). "Five years of insight into the world's most admired companies." Journal of Organizational Excellence **22**(1): 3-12.

Statman, M., K. Fisher and D. Anginer (2008). "Affect in behavioral asset-pricing model." Financial Analysts Journal **64**(2): 20-29.

Suh, T. and M. B. Houston (2010). "Distinguishing supplier reputation from trust in buyer-supplier relationships." Industrial marketing management **39**: 744-751.

Tenenhaus, M., V. Esposito Vinzi, Y.-M. Chatelin and C. Lauro (2005). "PLS path modeling." Computational Statistics & Data Analysis **48**: 159-205.

Titman, S. and R. Wessels (1988). "The Determinants of Capital Structure Choice." Journal of Finance **43**(1): 1-19.

Tobin, J. (1958). "Liquidity preference as behavior towards risk." Review of Economics Studies **25**: 65-86.

Trueman, B. (1994). "Analyst forecasts and herding behavior." The Review of Financial Studies **7**(1): 97-124.

Turban, D. B. and D. M. Cable (2003). "Firm reputation and applicant pool characteristics." Journal of Organizational Behavior **24**: 733-751.

van Riel, C., B. M. and C. Fombrun (2007). Essentials of corporate communication: Implementing practices for effective reputation management. Abingdon, Routledge.

Waddock, S. A. and S. B. Graves (1997). "The corporate social performance-financial performance link." Strategic Management Journal **18**(4): 303-319.

Walsh, G. and S. E. Beatty (2007). "Customer-based corporate reputation of a service firm: scale development and validation." Journal of Academic Marketing Science **35**: 127-143.

Wang, H. L. and C. L. Qian (2011). "CORPORATE PHILANTHROPY AND CORPORATE FINANCIAL PERFORMANCE: THE ROLES OF STAKEHOLDER RESPONSE AND POLITICAL ACCESS." Academy of Management Journal **54**(6): 1159-1181.

Weber, M., D. Malhotra and K. Murnighan (2005). "Normal acts of irrational trust: motivated attributions and the trust development process." Research in Organizational Behavior **26**: 75-101.

Wei, S., X. and C. Zhang (2006). "Why did individual stocks become more volatile?" Journal of Business **79**(1): 259-92.

Weigelt, K. and C. Camerer (1988). "Reputation and Corporate-Strategy - a Review of Recent Theory and Applications." Strategic Management Journal **9**(5): 443-454.

Welch, B. L. (1937). "The significance of the difference between two means when the population variances are unequal." Biometrika **29**: 350-62.

Wetzels, M., G. Odekerken-Schröder and C. van Oppen (2009). "Using PLS path modeling for assessing hierachical construct models : Guidelines and empirical illustration." MIS Quarterly **33**(1): 177-195.

Whetten, D. A. and A. Mackey (2002). "A social actor conception of organizational identity and its implications for the study of organizational reputation." Business and Society **41**: 393-414.

Wilhelm, W., J. and J. Downing, D. (2001). Information markets: What businesses can learn from financial innovation, Harvard Business Press.

Wright, P. and S. Ferris, P. (1997). "Agency conflict and corporate strategy: The effect of divestment on corporate value." Strategic Management Journal **18**: 77-83.

Xu, Y. and B. Malkiel, G. (2003). "Investigating the behavior of idiosyncratic volatility." Journal of Business **76**(4): 613-45.

Zajac, A. and J. Hook (December 22, 2008). Madoff had steady presence in Washington. Los Angeles Times.

SUMMARY

Corporate reputation is important for firms' long-term performance and competitive advantages (e.g. Fombrun and Shanley 1990; Roberts and Dowling 2002; Rindova, Williamson and Petkova 2010). In an effort to understand the importance of corporate reputation in different situations, extant research has considered not only different conceptualizations of reputation, but also its various antecedents and consequences. This dissertation sets out to understand the relationship between corporate reputation and a company's attractiveness to financial stakeholders from different angles. Specifically, building on the agency theory, signalling theory, behavioral finance theory, stakeholder theory and resource-based perspective, it uncovers the "black box" of the corporate reputation-corporate financial performance linkage through examining how reputation influences financial stakeholders.

Stemming from the fundamental information asymmetry problem between financial stakeholders and management, financial stakeholders suffer from management and business risks at contracting. As a consequence, investors would demand a risk premium to compensate for the uncertainties related to their investment. This generates a financing barrier to a firm for its accessibility to capital. Thus, I examine the role of financial reputation in the context of the agency problem to explain the causal chain through which these uncertainties and risks are mitigated for investors, and consequently investigate how reputation helps a firm to lower the financing barrier. Particularly, I identified the mediating role of financial reputation in the mechanism through which public reputation affects financial performance. This result also contributes to the understanding of how reputations among different stakeholder groups affect financial performance differently.

This dissertation contributes to the multifaceted conceptualization of reputation (1) by examining different economic values of overall corporate reputation and its pre-condition—visibility—in Study 1, (2) by considering reputation among different stakeholders—public stakeholders and financial stakeholders—in Study 2, and (3) by distinguishing two dimensions of financial reputation—trustworthiness and attractiveness—in Study 3. Acknowledging this multifaceted conceptualization of corporate reputation is crucial for firms to develop an effective strategy for reputation management, and further achieving competitive advantages. The overarching finding across the studies is that reputation management contributes to both attracting financial stakeholders and achieving a superior financial performance of the corporation.

The findings of this dissertation inform managers about how to manage their firms' reputations among different stakeholder groups in order to create competitive advantages to a firm. Especially, to form a positive perception among financial stakeholders, managers can either target at improving the firm's performance on some aspects that directly determine reputation among financial stakeholders, such as corporate social performance, or focus on influencing the perceptions among public stakeholders. The latter choice provides managers with an alternative manner to attract investors indirectly, and generates more flexibility to managers in stakeholder management.

SAMENVATTING (DUTCH SUMMARY)

Ondernemingsreputatie is belangrijk voor de lange-termijnprestaties en het concurrentievoordeel van bedrijven (b.v. Fombrun en Shanley 1990; Roberts en Dowling 2002; Rindova, Williamson en Petkova 2010). Om het belang van ondernemingsreputatie in verschillende situaties te begrijpen, heeft voorgaand onderzoek niet alleen gekeken naar verschillende conceptualisaties van reputatie, maar ook naar de verschillende antecedenten en consequenties ervan. Deze dissertatie beoogt de relatie te begrijpen tussen ondernemingsreputatie en de aantrekkelijkheid van een bedrijf voor financiële belanghebbenden. In het bijzonder ontsluiert zij, op basis van de principaal-agenttheorie, de signaaltheorie, de gedragseconomie, de stakeholder-theorie en de 'resource-based view', de "black box" van de relatie tussen ondernemingsreputatie en financiële prestaties door te onderzoeken hoe reputatie financiële belanghebbenden beïnvloedt.

Door het fundamentele probleem van de informatie-asymmetrie tussen financiële belanghebbenden en managers hebben financiële belanghebbenden te lijden onder management-risico's en zakelijke risico's. Als gevolg van deze risico's eisen investeerders een risicopremie om te compenseren voor de onzekerheid met betrekking tot hun investering. Deze premie creëert een financieringsbarrière voor ondernemingen op het gebied van hun toegang tot kapitaal. Ik onderzoek de rol van financiële reputatie in de context van het principaal-agentprobleem, om het causale proces te verklaren waardoor onzekerheden en risico's voor investeerders worden gereduceerd. Als gevolg hiervan wordt inzicht verkregen in de manier waarop reputatie de financieringsbarrière helpt te verlagen. In het bijzonder toon ik aan dat financiële reputatie een mediërende rol speelt in het mechanisme waardoor publieke reputatie de financiële prestaties van ondernemingen beïnvloedt. Deze bevinding draagt ook bij aan het begrip van de manier waarop reputaties onder verschillende groepen belanghebbenden verschillende effecten hebben op financiële prestaties.

Deze dissertatie draagt bij aan een multidimensionale conceptualisering van reputatie (1) door de verschillende aspecten van economische waarde gegenereerd door ondernemingsreputatie en haar preconditie – zichtbaarheid - in Studie 1, (2) door te kijken naar reputatie onder verschillende groepen belanghebbenden – publieke belanghebbenden en financiële belanghebbenden – in Studie 2, en (3) door onderscheid te maken tussen twee dimensies van financiële reputatie – betrouwbaarheid en aantrekkelijkheid – in Studie 3. Het erkennen van de multidimensionale aard van ondernemingsreputatie

is cruciaal voor bedrijven om een effectieve strategie te ontwikkelen voor reputatiemanagement, en om een concurrentievoordeel te behalen. De overkoepelende bevinding van de studies is dat reputatiemanagement zowel bijdraagt aan het aantrekken van financiële belanghebbenden als aan het behalen van een excellente financiële prestatie door het bedrijf.

De bevindingen in deze dissertatie geven managers aanwijzingen voor hoe ze de reputatie van hun onderneming bij verschillende groepen belanghebbenden zouden kunnen managen om een concurrentievoordeel te behalen. Om een positieve perceptie te creëren onder financiële belanghebbenden kunnen managers zich ofwel richten op het verbeteren van de prestaties van het bedrijf op bepaalde aspecten die direct de reputatie onder financiële belanghebbenden bepalen, zoals maatschappelijk verantwoord ondernemen, ofwel op het beïnvloeden van de percepties onder publieke belanghebbenden. De laatstgenoemde optie biedt managers een alternatieve, indirecte, manier om investeerders aan te trekken, en geeft managers meer flexibiliteit bij het managen van belanghebbenden.

ABOUT THE AUTHOR

Yijing Wang obtained her master's degree in financial economics with distinction from the Rotterdam School of Economics, Erasmus University in January 2008. In the same year, she started her PhD in the Department of Business and Society Management at the Rotterdam School of Management (RSM), Erasmus University in September. Prior to studying in the Netherlands, Yijing obtained a Bachelor of International Finance with distinction from Soochow University and worked for Shanghai Pudong Development Bank and Air Macau in China. Currently, her main research interests are corporate finance, corporate reputation management and corporate social responsibility, especially the impacts of intangible assets on financial performance, such as strengthening the capital market competitiveness and improving the firm value. Her research from this dissertation has been published in the *Corporate Reputation Review*. In addition, Yijing has organized an RSM Symposium on the Economic Value of Corporate Reputation together with Prof. dr. Cees B. M. van Riel and dr. Guido Berens, and has presented her research at international conferences such as the Academy of Management Meeting, the Conference on Corporate Reputation, Brand, Identity and Competitiveness, and the cconference of the Corporate Identity/Associations Research Group.

ERASMUS RESEARCH INSTITUTE OF MANAGEMENT (ERIM)

ERIM PH.D. SERIES RESEARCH IN MANAGEMENT

The ERIM PhD Series contains PhD dissertations in the field of Research in Management defended at Erasmus University Rotterdam and supervised by senior researchers affiliated to the Erasmus Research Institute of Management (ERIM). All dissertations in the ERIM PhD Series are available in full text through the ERIM Electronic Series Portal: http://hdl.handle.net/1765/1

ERIM is the joint research institute of the Rotterdam School of Management (RSM) and the Erasmus School of Economics at the Erasmus University Rotterdam (EUR).

DISSERTATIONS LAST FIVE YEARS

Acciaro, M., *Bundling Strategies in Global Supply Chains.* Promoter(s): Prof.dr. H.E. Haralambides, EPS-2010-197-LIS, http://hdl.handle.net/1765/19742

Agatz, N.A.H., *Demand Management in E-Fulfillment*. Promoter(s): Prof.dr.ir. J.A.E.E. van Nunen, EPS-2009-163-LIS, http://hdl.handle.net/1765/15425

Alexiev, A., *Exploratory Innovation: The Role of Organizational and Top Management Team Social Capital.* Promoter(s): Prof.dr. F.A.J. van den Bosch & Prof.dr. H.W. Volberda, EPS-2010-208-STR, http://hdl.handle.net/1765/20632

Asperen, E. van, *Essays on Port, Container, and Bulk Chemical Logistics Optimization***.** Promoter(s): Prof.dr.ir. R. Dekker, EPS-2009-181-LIS, http://hdl.handle.net/1765/17626

Assem, M.J. van den, *Deal or No Deal? Decision Making under Risk in a Large-Stake TV Game Show and Related Experiments,* Promoter(s): Prof.dr. J. Spronk, EPS-2008-138-F&A, http://hdl.handle.net/1765/13566

Benning, T.M., *A Consumer Perspective on Flexibility in Health Care: Priority Access Pricing and Customized Care*, Promoter(s): Prof.dr.ir. B.G.C. Dellaert, EPS-2011-241-MKT, http://hdl.handle.net/1765/23670

Betancourt, N.E., *Typical Atypicality: Formal and Informal Institutional Conformity, Deviance, and Dynamics*, Promoter(s): Prof.dr. B. Krug, EPS-2012-262-ORG, http://hdl.handle.net/1765/32345

Bezemer, P.J., *Diffusion of Corporate Governance Beliefs: Board Independence and the Emergence of a Shareholder Value Orientation in the Netherlands.* Promoter(s): Prof.dr.ing. F.A.J. van den Bosch & Prof.dr. H.W. Volberda, EPS-2009-192-STR, http://hdl.handle.net/1765/18458

Binken, J.L.G., *System Markets: Indirect Network Effects in Action, or Inaction,* Promoter(s): Prof.dr. S. Stremersch, EPS-2010-213-MKT, http://hdl.handle.net/1765/21186

Blitz, D.C., *Benchmarking Benchmarks,* Promoter(s): Prof.dr. A.G.Z. Kemna & Prof.dr. W.F.C. Verschoor, EPS-2011-225-F&A, http://hdl.handle.net/1765/22624

Boer-Sorbán, K., *Agent-Based Simulation of Financial Markets: A modular, Continuous-Time Approach,* Promoter(s): Prof.dr. A. de Bruin, EPS-2008-119-LIS, http://hdl.handle.net/1765/10870

Boon, C.T., *HRM and Fit: Survival of the Fittest!?,* Promoter(s): Prof.dr. J. Paauwe & Prof.dr. D.N. den Hartog, EPS-2008-129-ORG, http://hdl.handle.net/1765/12606

Borst, W.A.M., *Understanding Crowdsourcing: Effects of Motivation and Rewards on Participation and Performance in Voluntary Online Activities,* Promoter(s): Prof.dr.ir. J.C.M. van den Ende & Prof.dr.ir. H.W.G.M. van Heck, EPS-2010-221-LIS, http://hdl.handle.net/1765/ 21914

Braun, E., *City Marketing: Towards an Integrated Approach,* Promoter(s): Prof.dr. L. van den Berg, EPS-2008-142-MKT, http://hdl.handle.net/1765/13694

Brumme, W.-H., *Manufacturing Capability Switching in the High-Tech Electronics Technology Life Cycle,* Promoter(s): Prof.dr.ir. J.A.E.E. van Nunen & Prof.dr.ir. L.N. Van Wassenhove, EPS-2008-126-LIS, http://hdl.handle.net/1765/12103

Budiono, D.P., *The Analysis of Mutual Fund Performance: Evidence from U.S. Equity Mutual Funds,* Promoter(s): Prof.dr. M.J.C.M. Verbeek, EPS-2010-185-F&A, http://hdl.handle.net/1765/18126

Burger, M.J., *Structure and Cooptition in Urban Networks*, Promoter(s): Prof.dr. G.A. van der Knaap & Prof.dr. H.R. Commandeur, EPS-2011-243-ORG, http://hdl.handle.net/1765/26178

Burgers, J.H., *Managing Corporate Venturing: Multilevel Studies on Project Autonomy, Integration, Knowledge Relatedness, and Phases in the New Business Development Process,* Promoter(s): Prof.dr.ir. F.A.J. Van den Bosch & Prof.dr. H.W. Volberda, EPS-2008-136-STR, http://hdl.handle.net/1765/13484

Camacho, N.M., *Health and Marketing; Essays on Physician and Patient Decision-making*, Promoter(s): Prof.dr. S. Stremersch, EPS-2011-237-MKT, http://hdl.handle.net/1765/23604

Carvalho de Mesquita Ferreira, L., *Attention Mosaics: Studies of Organizational Attention*, Promoter(s): Prof.dr. P.M.A.R. Heugens & Prof.dr. J. van Oosterhout, EPS-2010-205-ORG, http://hdl.handle.net/1765/19882

Chen, C.-M., *Evaluation and Design of Supply Chain Operations Using DEA*, Promoter(s): Prof.dr. J.A.E.E. van Nunen, EPS-2009-172-LIS, http://hdl.handle.net/1765/16181

Chen, H., *Individual Mobile Communication Services and Tariffs*, Promoter(s): Prof.dr. L.F.J.M. Pau, EPS-2008-123-LIS, http://hdl.handle.net/1765/11141

Defilippi Angeldonis, E.F., *Access Regulation for Naturally Monopolistic Port Terminals: Lessons from Regulated Network Industries,* Promoter(s): Prof.dr. H.E. Haralambides, EPS-2010-204-LIS, http://hdl.handle.net/1765/19881

Deichmann, D., *Idea Management: Perspectives from Leadership, Learning, and Network Theory*, Promoter(s): Prof.dr.ir. J.C.M. van den Ende, EPS-2012-255-ORG, http://hdl.handle.net/1765/ 31174

Derwall, J.M.M., *The Economic Virtues of SRI and CSR*, Promoter(s): Prof.dr. C.G. Koedijk, EPS-2007-101-F&A, http://hdl.handle.net/1765/8986

Desmet, P.T.M., *In Money we Trust? Trust Repair and the Psychology of Financial Compensations*, Promoter(s): Prof.dr. D. De Cremer & Prof.dr. E. van Dijk, EPS-2011-232-ORG, http://hdl.handle.net/1765/23268

Diepen, M. van, *Dynamics and Competition in Charitable Giving*, Promoter(s): Prof.dr. Ph.H.B.F. Franses, EPS-2009-159-MKT, http://hdl.handle.net/1765/14526

Dietvorst, R.C., *Neural Mechanisms Underlying Social Intelligence and Their Relationship with the Performance of Sales Managers,* Promoter(s): Prof.dr. W.J.M.I. Verbeke, EPS-2010-215-MKT, http://hdl.handle.net/1765/21188

Dietz, H.M.S., *Managing (Sales)People towards Performance: HR Strategy, Leadership & Teamwork*, Promoter(s): Prof.dr. G.W.J. Hendrikse, EPS-2009-168-ORG, http://hdl.handle.net/1765/16081

Doorn, S. van, *Managing Entrepreneurial Orientation*, Promoter(s): Prof.dr. J.J.P. Jansen, Prof.dr.ing. F.A.J. van den Bosch & Prof.dr. H.W. Volberda, EPS-2012-258-STR, http://hdl.handle.net/1765/32166

Douwens-Zonneveld, M.G., *Animal Spirits and Extreme Confidence: No Guts, No Glory*, Promoter(s): Prof.dr. W.F.C. Verschoor, EPS-2012-257-F&A, http://hdl.handle.net/1765/31914

Duca, E., *The Impact of Investor Demand on Security Offerings*, Promoter(s): Prof.dr. A. de Jong, EPS-2011-240-F&A, http://hdl.handle.net/1765/26041

Eck, N.J. van, *Methodological Advances in Bibliometric Mapping of Science*, Promoter(s): Prof.dr.ir. R. Dekker, EPS-2011-247-LIS, http://hdl.handle.net/1765/26509

Eijk, A.R. van der, *Behind Networks: Knowledge Transfer, Favor Exchange and Performance*, Promoter(s): Prof.dr. S.L. van de Velde & Prof.dr.drs. W.A. Dolfsma, EPS-2009-161-LIS, http://hdl.handle.net/1765/14613

Elstak, M.N., *Flipping the Identity Coin: The Comparative Effect of Perceived, Projected and Desired Organizational Identity on Organizational Identification and Desired Behavior*, Promoter(s): Prof.dr. C.B.M. van Riel, EPS-2008-117-ORG, http://hdl.handle.net/1765/10723

Erken, H.P.G., *Productivity, R&D and Entrepreneurship*, Promoter(s): Prof.dr. A.R. Thurik, EPS-2008-147-ORG, http://hdl.handle.net/1765/14004

Essen, M. van, *An Institution-Based View of Ownership*, Promoter(s): Prof.dr. J. van Oosterhout & Prof.dr. G.M.H. Mertens, EPS-2011-226-ORG, http://hdl.handle.net/1765/22643

Feng, L., *Motivation, Coordination and Cognition in Cooperatives,* Promoter(s): Prof.dr. G.W.J. Hendrikse, EPS-2010-220-ORG, http://hdl.handle.net/1765/21680

Gertsen, H.F.M., *Riding a Tiger without Being Eaten: How Companies and Analysts Tame Financial Restatements and Influence Corporate Reputation*, Promoter(s): Prof.dr. C.B.M. van Riel, EPS-2009-171-ORG, http://hdl.handle.net/1765/16098

Gharehgozli, A.H., *Developing New Methods for Efficient Container Stacking Operations*, Promoter(s): Prof.dr.ir. M.B.M. de Koster, EPS-2012-269-LIS, http://hdl.handle.net/1765/1

Gijsbers, G.W., *Agricultural Innovation in Asia: Drivers, Paradigms and Performance,* Promoter(s): Prof.dr. R.J.M. van Tulder, EPS-2009-156-ORG, http://hdl.handle.net/1765/14524

Gils, S. van, *Morality in Interactions: On the Display of Moral Behavior by Leaders and Employees*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2012-270-ORG, http://hdl.handle.net/1765/1

Ginkel-Bieshaar, M.N.G. van, *The Impact of Abstract versus Concrete Product Communications on Consumer Decision-making Processes*, Promoter(s): Prof.dr.ir. B.G.C. Dellaert, EPS-2012-256-MKT, http://hdl.handle.net/1765/31913

Gkougkousi, X., *Empirical Studies in Financial Accounting*, Promoter(s): Prof.dr. G.M.H. Mertens & Prof.dr. E. Peek, EPS-2012-264-F&A, http://hdl.handle.net/1765/37170

Gong, Y., *Stochastic Modelling and Analysis of Warehouse Operations*, Promoter(s): Prof.dr. M.B.M. de Koster & Prof.dr. S.L. van de Velde, EPS-2009-180-LIS, http://hdl.handle.net/1765/16724

Greeven, M.J., *Innovation in an Uncertain Institutional Environment: Private Software Entrepreneurs in Hangzhou, China*, Promoter(s): Prof.dr. B. Krug, EPS-2009-164-ORG, http://hdl.handle.net/1765/15426

Guenster, N.K., *Investment Strategies Based on Social Responsibility and Bubbles*, Promoter(s): Prof.dr. C.G. Koedijk, EPS-2008-175-F&A, http://hdl.handle.net/1765/16209

Hakimi, N.A, *Leader Empowering Behaviour: The Leader's Perspective: Understanding the Motivation behind Leader Empowering Behaviour*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2010-184-ORG, http://hdl.handle.net/1765/17701

Halderen, M.D. van, *Organizational Identity Expressiveness and Perception Management: Principles for Expressing the Organizational Identity in Order to Manage the Perceptions and Behavioral Reactions of External Stakeholders*, Promoter(s): Prof.dr. S.B.M. van Riel, EPS-2008-122-ORG, http://hdl.handle.net/1765/10872

Hensmans, M., *A Republican Settlement Theory of the Firm: Applied to Retail Banks in England and the Netherlands (1830-2007)*, Promoter(s): Prof.dr. A. Jolink & Prof.dr. S.J. Magala, EPS-2010-193-ORG, http://hdl.handle.net/1765/19494

Hernandez Mireles, C., *Marketing Modeling for New Products,* Promoter(s): Prof.dr. P.H. Franses, EPS-2010-202-MKT, http://hdl.handle.net/1765/19878

Hessels, S.J.A., *International Entrepreneurship: Value Creation Across National Borders*, Promoter(s): Prof.dr. A.R. Thurik, EPS-2008-144-ORG, http://hdl.handle.net/1765/13942

Heyden, M.L.M., *Essays on Upper Echelons & Strategic Renewal: A Multilevel Contingency Approach*, Promoter(s): Prof.dr. F.A.J. van den Bosch & Prof.dr. H.W. Volberda, EPS-2012-259-STR, http://hdl.handle.net/1765/32167

Hoedemaekers, C.M.W., *Performance, Pinned down: A Lacanian Analysis of Subjectivity at Work*, Promoter(s): Prof.dr. S. Magala & Prof.dr. D.H. den Hartog, EPS-2008-121-ORG, http://hdl.handle.net/1765/10871

Hoever, I.J., *Diversity and Creativity: In Search of Synergy*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2012-267-ORG, http://hdl.handle.net/1765/37392

Hoogendoorn, B., *Social Entrepreneurship in the Modern Economy: Warm Glow, Cold Feet*, Promoter(s): Prof.dr. H.P.G. Pennings & Prof.dr. A.R. Thurik, EPS-2011-246-STR, http://hdl.handle.net/1765/26447

Hoogervorst, N., *On The Psychology of Displaying Ethical Leadership: A Behavioral Ethics Approach*, Promoter(s): Prof.dr. D. De Cremer & Dr. M. van Dijke, EPS-2011-244-ORG, http://hdl.handle.net/1765/26228

Huang, X., *An Analysis of Occupational Pension Provision: From Evaluation to Redesign,* Promoter(s): Prof.dr. M.J.C.M. Verbeek & Prof.dr. R.J. Mahieu, EPS-2010-196-F&A, http://hdl.handle.net/1765/19674

Hytönen, K.A. *Context Effects in Valuation, Judgment and Choice*, Promoter(s): Prof.dr.ir. A. Smidts, EPS-2011-252-MKT, http://hdl.handle.net/1765/30668

Jalil, M.N., *Customer Information Driven After Sales Service Management: Lessons from Spare Parts Logistics,* Promoter(s): Prof.dr. L.G. Kroon, EPS-2011-222-LIS, http://hdl.handle.net/1765/22156

Jaspers, F.P.H., *Organizing Systemic Innovation*, Promoter(s): Prof.dr.ir. J.C.M. van den Ende, EPS-2009-160-ORG, http://hdl.handle.net/1765/14974

Jennen, M.G.J., *Empirical Essays on Office Market Dynamics*, Promoter(s): Prof.dr. C.G. Koedijk & Prof.dr. D. Brounen, EPS-2008-140-F&A, http://hdl.handle.net/1765/13692

Jiang, T., *Capital Structure Determinants and Governance Structure Variety in Franchising*, Promoter(s): Prof.dr. G. Hendrikse & Prof.dr. A. de Jong, EPS-2009-158-F&A, http://hdl.handle.net/1765/14975

Jiao, T., *Essays in Financial Accounting*, Promoter(s): Prof.dr. G.M.H. Mertens, EPS-2009-176-F&A, http://hdl.handle.net/1765/16097

Kaa, G. van, *Standard Battles for Complex Systems: Empirical Research on the Home Network,* Promoter(s): Prof.dr.ir. J. van den Ende & Prof.dr.ir. H.W.G.M. van Heck, EPS-2009-166-ORG, http://hdl.handle.net/1765/16011

Kagie, M., *Advances in Online Shopping Interfaces: Product Catalog Maps and Recommender Systems,* Promoter(s): Prof.dr. P.J.F. Groenen, EPS-2010-195-MKT, http://hdl.handle.net/1765/19532

Kappe, E.R., *The Effectiveness of Pharmaceutical Marketing*, Promoter(s): Prof.dr. S. Stremersch, EPS-2011-239-MKT, http://hdl.handle.net/1765/23610

Karreman, B., *Financial Services and Emerging Markets,* Promoter(s): Prof.dr. G.A. van der Knaap & Prof.dr. H.P.G. Pennings, EPS-2011-223-ORG, http://hdl.handle.net/1765/ 22280

Klein, M.H., *Poverty Alleviation through Sustainable Strategic Business Models: Essays on Poverty Alleviation as a Business Strategy,* Promoter(s): Prof.dr. H.R. Commandeur, EPS-2008-135-STR, http://hdl.handle.net/1765/13482

Krauth, E.I., *Real-Time Planning Support: A Task-Technology Fit Perspective,* Promoter(s): Prof.dr. S.L. van de Velde & Prof.dr. J. van Hillegersberg, EPS-2008-155-LIS, http://hdl.handle.net/1765/14521

Kwee, Z., *Investigating Three Key Principles of Sustained Strategic Renewal: A Longitudinal Study of Long-Lived Firms,* Promoter(s): Prof.dr.ir. F.A.J. Van den Bosch & Prof.dr. H.W. Volberda, EPS-2009-174-STR, http://hdl.handle.net/1765/16207

Lam, K.Y., *Reliability and Rankings*, Promoter(s): Prof.dr. P.H.B.F. Franses, EPS-2011-230-MKT, http://hdl.handle.net/1765/22977

Lander, M.W., *Profits or Professionalism? On Designing Professional Service Firms*, Promoter(s): Prof.dr. J. van Oosterhout & Prof.dr. P.P.M.A.R. Heugens, EPS-2012-253-ORG, http://hdl.handle.net/1765/30682

Langhe, B. de, *Contingencies: Learning Numerical and Emotional Associations in an Uncertain World*, Promoter(s): Prof.dr.ir. B. Wierenga & Prof.dr. S.M.J. van Osselaer, EPS-2011-236-MKT, http://hdl.handle.net/1765/23504

Larco Martinelli, J.A., *Incorporating Worker-Specific Factors in Operations Management Models,* Promoter(s): Prof.dr.ir. J. Dul & Prof.dr. M.B.M. de Koster, EPS-2010-217-LIS, http://hdl.handle.net/1765/21527

Li, T., *Informedness and Customer-Centric Revenue Management,* Promoter(s): Prof.dr. P.H.M. Vervest & Prof.dr.ir. H.W.G.M. van Heck, EPS-2009-146-LIS, http://hdl.handle.net/1765/14525

Liere, D.W. van, *Network Horizon and the Dynamics of Network Positions: A Multi-Method Multi-Level Longitudinal Study of Interfirm Networks,* Promoter(s): Prof.dr. P.H.M. Vervest, EPS-2007-105-LIS, http://hdl.handle.net/1765/10181

Lovric, M., *Behavioral Finance and Agent-Based Artificial Markets*, Promoter(s): Prof.dr. J. Spronk & Prof.dr.ir. U. Kaymak, EPS-2011-229-F&A, http://hdl.handle.net/1765/ 22814

Maas, A.A., van der, *Strategy Implementation in a Small Island Context: An Integrative Framework,* Promoter(s): Prof.dr. H.G. van Dissel, EPS-2008-127-LIS, http://hdl.handle.net/1765/12278

Maas, K.E.G., *Corporate Social Performance: From Output Measurement to Impact Measurement,* Promoter(s): Prof.dr. H.R. Commandeur, EPS-2009-182-STR, http://hdl.handle.net/1765/17627

Markwat, T.D., *Extreme Dependence in Asset Markets Around the Globe*, Promoter(s): Prof.dr. D.J.C. van Dijk, EPS-2011-227-F&A, http://hdl.handle.net/1765/22744

Mees, H., *Changing Fortunes: How China's Boom Caused the Financial Crisis*, Promoter(s): Prof.dr. Ph.H.B.F. Franses, EPS-2012-266-MKT, http://hdl.handle.net/1765/34930

Meuer, J., *Configurations of Inter-Firm Relations in Management Innovation: A Study in China's Biopharmaceutical Industry*, Promoter(s): Prof.dr. B. Krug, EPS-2011-228-ORG, http://hdl.handle.net/1765/22745

Mihalache, O.R., *Stimulating Firm Innovativeness: Probing the Interrelations between Managerial and Organizational Determinants*, Promoter(s): Prof.dr. J.J.P. Jansen, Prof.dr.ing. F.A.J. van den Bosch & Prof.dr. H.W. Volberda, EPS-2012-260-S&E, http://hdl.handle.net/1765/32343

Moitra, D., *Globalization of R&D: Leveraging Offshoring for Innovative Capability and Organizational Flexibility,* Promoter(s): Prof.dr. K. Kumar, EPS-2008-150-LIS, http://hdl.handle.net/1765/14081

Moonen, J.M., *Multi-Agent Systems for Transportation Planning and Coordination*, Promoter(s): Prof.dr. J. van Hillegersberg & Prof.dr. S.L. van de Velde, EPS-2009-177-LIS, http://hdl.handle.net/1765/16208

Nalbantov G.I., *Essays on Some Recent Penalization Methods with Applications in Finance and Marketing*, Promoter(s): Prof. dr P.J.F. Groenen, EPS-2008-132-F&A, http://hdl.handle.net/1765/13319

Nederveen Pieterse, A., *Goal Orientation in Teams: The Role of Diversity*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2009-162-ORG, http://hdl.handle.net/1765/15240

Nguyen, T.T., *Capital Structure, Strategic Competition, and Governance*, Promoter(s): Prof.dr. A. de Jong, EPS-2008-148-F&A, http://hdl.handle.net/1765/14005

Nielsen, L.K., *Rolling Stock Rescheduling in Passenger Railways: Applications in Short-term Planning and in Disruption Management*, Promoter(s): Prof.dr. L.G. Kroon, EPS-2011-224-LIS, http://hdl.handle.net/1765/22444

Niesten, E.M.M.I., *Regulation, Governance and Adaptation: Governance Transformations in the Dutch and French Liberalizing Electricity Industries*, Promoter(s): Prof.dr. A. Jolink & Prof.dr. J.P.M. Groenewegen, EPS-2009-170-ORG, http://hdl.handle.net/1765/16096

Nieuwenboer, N.A. den, *Seeing the Shadow of the Self*, Promoter(s): Prof.dr. S.P. Kaptein, EPS-2008-151-ORG, http://hdl.handle.net/1765/14223

Nijdam, M.H., *Leader Firms: The Value of Companies for the Competitiveness of the Rotterdam Seaport Cluster,* Promoter(s): Prof.dr. R.J.M. van Tulder, EPS-2010-216-ORG, http://hdl.handle.net/1765/21405

Noordegraaf-Eelens, L.H.J., *Contested Communication: A Critical Analysis of Central Bank Speech,* Promoter(s): Prof.dr. Ph.H.B.F. Franses, EPS-2010-209-MKT, http://hdl.handle.net/1765/21061

Nuijten, A.L.P., *Deaf Effect for Risk Warnings: A Causal Examination applied to Information Systems Projects*, Promoter(s): Prof.dr. G. van der Pijl & Prof.dr. H. Commandeur & Prof.dr. M. Keil, EPS-2012-263-S&E, http://hdl.handle.net/1765/34928

Nuijten, I., *Servant Leadership: Paradox or Diamond in the Rough? A Multidimensional Measure and Empirical Evidence*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2009-183-ORG, http://hdl.handle.net/1765/21405

Oosterhout, M., van, *Business Agility and Information Technology in Service Organizations,* Promoter(s): Prof,dr.ir. H.W.G.M. van Heck, EPS-2010-198-LIS, http://hdl.handle.net/1765/19805

Oostrum, J.M., van, *Applying Mathematical Models to Surgical Patient Planning*, Promoter(s): Prof.dr. A.P.M. Wagelmans, EPS-2009-179-LIS, http://hdl.handle.net/1765/16728

Osadchiy, S.E., *The Dynamics of Formal Organization: Essays on Bureaucracy and Formal Rules*, Promoter(s): Prof.dr. P.P.M.A.R. Heugens, EPS-2011-231-ORG, http://hdl.handle.net/1765/23250

Otgaar, A.H.J., *Industrial Tourism: Where the Public Meets the Private,* Promoter(s): Prof.dr. L. van den Berg, EPS-2010-219-ORG, http://hdl.handle.net/1765/21585

Ozdemir, M.N., *Project-level Governance, Monetary Incentives and Performance in Strategic R&D Alliances*, Promoter(s): Prof.dr.ir. J.C.M. van den Ende, EPS-2011-235-LIS, http://hdl.handle.net/1765/23550

Peers, Y., *Econometric Advances in Diffusion Models*, Promoter(s): Prof.dr. Ph.H.B.F. Franses, EPS-2011-251-MKT, http://hdl.handle.net/1765/ 30586

Pince, C., *Advances in Inventory Management: Dynamic Models,* Promoter(s): Prof.dr.ir. R. Dekker, EPS-2010-199-LIS, http://hdl.handle.net/1765/19867

Porras Prado, M., *The Long and Short Side of Real Estate, Real Estate Stocks, and Equity*, Promoter(s): Prof.dr. M.J.C.M. Verbeek, EPS-2012-254-F&A, http://hdl.handle.net/1765/30848

Potthoff, D., *Railway Crew Rescheduling: Novel Approaches and Extensions,* Promoter(s): Prof.dr. A.P.M. Wagelmans & Prof.dr. L.G. Kroon, EPS-2010-210-LIS, http://hdl.handle.net/1765/21084

Poruthiyil, P.V., *Steering Through: How Organizations Negotiate Permanent Uncertainty and Unresolvable Choices*, Promoter(s): Prof.dr. P.P.M.A.R. Heugens & Prof.dr. S. Magala, EPS-2011-245-ORG, http://hdl.handle.net/1765/26392

Pourakbar, M. *End-of-Life Inventory Decisions of Service Parts*, Promoter(s): Prof.dr.ir. R. Dekker, EPS-2011-249-LIS, http://hdl.handle.net/1765/30584

Prins, R., *Modeling Consumer Adoption and Usage of Value-Added Mobile Services*, Promoter(s): Prof.dr. Ph.H.B.F. Franses & Prof.dr. P.C. Verhoef, EPS-2008-128-MKT, http://hdl.handle.net/1765/12461

Quak, H.J., *Sustainability of Urban Freight Transport: Retail Distribution and Local Regulation in Cities*, Promoter(s): Prof.dr. M.B.M. de Koster, EPS-2008-124-LIS, http://hdl.handle.net/1765/11990

Quariguasi Frota Neto, J., *Eco-efficient Supply Chains for Electrical and Electronic Products*, Promoter(s): Prof.dr.ir. J.A.E.E. van Nunen & Prof.dr.ir. H.W.G.M. van Heck, EPS-2008-152-LIS, http://hdl.handle.net/1765/14785

Radkevitch, U.L, *Online Reverse Auction for Procurement of Services*, Promoter(s): Prof.dr.ir. H.W.G.M. van Heck, EPS-2008-137-LIS, http://hdl.handle.net/1765/13497

Rijsenbilt, J.A., *CEO Narcissism; Measurement and Impact*, Promoter(s): Prof.dr. A.G.Z. Kemna & Prof.dr. H.R. Commandeur, EPS-2011-238-STR, http://hdl.handle.net/1765/ 23554

Roelofsen, E.M., *The Role of Analyst Conference Calls in Capital Markets*, Promoter(s): Prof.dr. G.M.H. Mertens & Prof.dr. L.G. van der Tas RA, EPS-2010-190-F&A, http://hdl.handle.net/1765/18013

Rook, L., *Imitation in Creative Task Performance*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2008-125-ORG, http://hdl.handle.net/1765/11555

Rosmalen, J. van, *Segmentation and Dimension Reduction: Exploratory and Model-Based Approaches*, Promoter(s): Prof.dr. P.J.F. Groenen, EPS-2009-165-MKT, http://hdl.handle.net/1765/15536

Roza, M.W., *The Relationship between Offshoring Strategies and Firm Performance: Impact of Innovation, Absorptive Capacity and Firm Size,* Promoter(s): Prof.dr. H.W. Volberda & Prof.dr.ing. F.A.J. van den Bosch, EPS-2011-214-STR, http://hdl.handle.net/1765/22155

Rus, D., *The Dark Side of Leadership: Exploring the Psychology of Leader Self-serving Behavior*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2009-178-ORG, http://hdl.handle.net/1765/16726

Samii, R., *Leveraging Logistics Partnerships: Lessons from Humanitarian Organizations,* Promoter(s): Prof.dr.ir. J.A.E.E. van Nunen & Prof.dr.ir. L.N. Van Wassenhove, EPS-2008-153-LIS, http://hdl.handle.net/1765/14519

Schaik, D. van, *M&A in Japan: An Analysis of Merger Waves and Hostile Takeovers,* Promoter(s): Prof.dr. J. Spronk & Prof.dr. J.P.M. Groenewegen, EPS-2008-141-F&A, http://hdl.handle.net/1765/13693

Schauten, M.B.J., *Valuation, Capital Structure Decisions and the Cost of Capital,* Promoter(s): Prof.dr. J. Spronk & Prof.dr. D. van Dijk, EPS-2008-134-F&A, http://hdl.handle.net/1765/13480

Schellekens, G.A.C., *Language Abstraction in Word of Mouth,* Promoter(s): Prof.dr.ir. A. Smidts, EPS-2010-218-MKT, ISBN: 978-90-5892-252-6, http://hdl.handle.net/1765/21580

Sotgiu, F., *Not All Promotions are Made Equal: From the Effects of a Price War to Cross-chain Cannibalization,* Promoter(s): Prof.dr. M.G. Dekimpe & Prof.dr.ir. B. Wierenga, EPS-2010-203-MKT, http://hdl.handle.net/1765/19714

Srour, F.J., *Dissecting Drayage: An Examination of Structure, Information, and Control in Drayage Operations*, Promoter(s): Prof.dr. S.L. van de Velde, EPS-2010-186-LIS, http://hdl.handle.net/1765/18231

Stam, D.A., *Managing Dreams and Ambitions: A Psychological Analysis of Vision Communication*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2008-149-ORG, http://hdl.handle.net/1765/14080

Stienstra, M., *Strategic Renewal in Regulatory Environments: How Inter- and Intra-organisational Institutional Forces Influence European Energy Incumbent Firms,* Promoter(s): Prof.dr.ir. F.A.J. Van den Bosch & Prof.dr. H.W. Volberda, EPS-2008-145-STR, http://hdl.handle.net/1765/13943

Sweldens, S.T.L.R., *Evaluative Conditioning 2.0: Direct versus Associative Transfer of Affect to Brands,* Promoter(s): Prof.dr. S.M.J. van Osselaer, EPS-2009-167-MKT, http://hdl.handle.net/1765/16012

Szkudlarek, B.A.*, Spinning the Web of Reentry: [Re]connecting reentry training theory and practice*, Promoter(s): Prof.dr. S.J. Magala, EPS-2008-143-ORG, http://hdl.handle.net/1765/13695

Teixeira de Vasconcelos, M., *Agency Costs, Firm Value, and Corporate Investment*, Promoter(s): Prof.dr. P.G.J. Roosenboom, EPS-2012-265-F&A, http://hdl.handle.net/1765/37265

Tempelaar, M.P., *Organizing for Ambidexterity: Studies on the Pursuit of Exploration and Exploitation through Differentiation, Integration, Contextual and Individual Attributes,* Promoter(s): Prof.dr.ing. F.A.J. van den Bosch & Prof.dr. H.W. Volberda, EPS-2010-191-STR, http://hdl.handle.net/1765/18457

Tiwari, V., *Transition Process and Performance in IT Outsourcing: Evidence from a Field Study and Laboratory Experiments,* Promoter(s): Prof.dr.ir. H.W.G.M. van Heck & Prof.dr. P.H.M. Vervest, EPS-2010-201-LIS, http://hdl.handle.net/1765/19868

Tröster, C., *Nationality Heterogeneity and Interpersonal Relationships at Work*, Promoter(s): Prof.dr. D.L. van Knippenberg, EPS-2011-233-ORG, http://hdl.handle.net/1765/23298

Tsekouras, D., *No Pain No Gain: The Beneficial Role of Consumer Effort in Decision Making*, Promoter(s): Prof.dr.ir. B.G.C. Dellaert, EPS-2012-268-MKT, http://hdl.handle.net/1765/1

Tuk, M.A., *Is Friendship Silent When Money Talks? How Consumers Respond to Word-of-Mouth Marketing*, Promoter(s): Prof.dr.ir. A. Smidts & Prof.dr. D.H.J. Wigboldus, EPS-2008-130-MKT, http://hdl.handle.net/1765/12702

Tzioti, S., *Let Me Give You a Piece of Advice: Empirical Papers about Advice Taking in Marketing,* Promoter(s): Prof.dr. S.M.J. van Osselaer & Prof.dr.ir. B. Wierenga, EPS-2010-211-MKT, hdl.handle.net/1765/21149

Vaccaro, I.G., *Management Innovation: Studies on the Role of Internal Change Agents,* Promoter(s): Prof.dr. F.A.J. van den Bosch & Prof.dr. H.W. Volberda, EPS-2010-212-STR, hdl.handle.net/1765/21150

Verheijen, H.J.J., *Vendor-Buyer Coordination in Supply Chains,* Promoter(s): Prof.dr.ir. J.A.E.E. van Nunen, EPS-2010-194-LIS, http://hdl.handle.net/1765/19594

Verwijmeren, P., *Empirical Essays on Debt, Equity, and Convertible Securities*, Promoter(s): Prof.dr. A. de Jong & Prof.dr. M.J.C.M. Verbeek, EPS-2009-154-F&A, http://hdl.handle.net/1765/14312

Vlam, A.J., *Customer First? The Relationship between Advisors and Consumers of Financial Products*, Promoter(s): Prof.dr. Ph.H.B.F. Franses, EPS-2011-250-MKT, http://hdl.handle.net/1765/30585

Waard, E.J. de, *Engaging Environmental Turbulence: Organizational Determinants for Repetitive Quick and Adequate Responses*, Promoter(s): Prof.dr. H.W. Volberda & Prof.dr. J. Soeters, EPS-2010-189-STR, http://hdl.handle.net/1765/18012

Wall, R.S., *Netscape: Cities and Global Corporate Networks,* Promoter(s): Prof.dr. G.A. van der Knaap, EPS-2009-169-ORG, http://hdl.handle.net/1765/16013

Waltman, L., *Computational and Game-Theoretic Approaches for Modeling Bounded Rationality*, Promoter(s): Prof.dr.ir. R. Dekker & Prof.dr.ir. U. Kaymak, EPS-2011-248-LIS, http://hdl.handle.net/1765/26564

Wang, Y., *Information Content of Mutual Fund Portfolio Disclosure*, Promoter(s): Prof.dr. M.J.C.M. Verbeek, EPS-2011-242-F&A, http://hdl.handle.net/1765/26066

Weerdt, N.P. van der, *Organizational Flexibility for Hypercompetitive Markets: Empirical Evidence of the Composition and Context Specificity of Dynamic Capabilities and Organization Design Parameters,* Promoter(s): Prof.dr. H.W. Volberda, EPS-2009-173-STR, http://hdl.handle.net/1765/16182

Wubben, M.J.J., *Social Functions of Emotions in Social Dilemmas*, Promoter(s): Prof.dr. D. De Cremer & Prof.dr. E. van Dijk, EPS-2009-187-ORG, http://hdl.handle.net/1765/18228

Xu, Y., *Empirical Essays on the Stock Returns, Risk Management, and Liquidity Creation of Banks*, Promoter(s): Prof.dr. M.J.C.M. Verbeek, EPS-2010-188-F&A, http://hdl.handle.net/1765/18125

Yang, J., *Towards the Restructuring and Co-ordination Mechanisms for the Architecture of Chinese Transport Logistics*, Promoter(s): Prof.dr. H.E. Harlambides, EPS-2009-157-LIS, http://hdl.handle.net/1765/14527

Yu, M., *Enhancing Warehouse Performance by Efficient Order Picking*, Promoter(s): Prof.dr. M.B.M. de Koster, EPS-2008-139-LIS, http://hdl.handle.net/1765/13691

Zhang, D., *Essays in Executive Compensation*, Promoter(s): Prof.dr. I. Dittmann, EPS-2012-261-F&A, http://hdl.handle.net/1765/32344

Zhang, X., *Scheduling with Time Lags,* Promoter(s): Prof.dr. S.L. van de Velde, EPS-2010-206-LIS, http://hdl.handle.net/1765/19928

Zhou, H., *Knowledge, Entrepreneurship and Performance: Evidence from Country-level and Firm-level Studies,* Promoter(s): Prof.dr. A.R. Thurik & Prof.dr. L.M. Uhlaner, EPS-2010-207-ORG, http://hdl.handle.net/1765/20634

Zwan, P.W. van der, *The Entrepreneurial Process: An International Analysis of Entry and Exit*, Promoter(s): Prof.dr. A.R. Thurik & Prof.dr. P.J.F. Groenen, EPS-2011-234-ORG, http://hdl.handle.net/1765/23422

Zwart, G.J. de, *Empirical Studies on Financial Markets: Private Equity, Corporate Bonds and Emerging Markets*, Promoter(s): Prof.dr. M.J.C.M. Verbeek & Prof.dr. D.J.C. van Dijk, EPS-2008-131-F&A, http://hdl.handle.net/1765/12703

Erasmus Research Institute of Management - ERiM

CORPORATE REPUTATION MANAGEMENT
REACHING OUT TO FINANCIAL STAKEHOLDERS

Corporate reputation is important for firms' long-term performance and competitive advantages. This dissertation sets out to understand the relationship between corporate reputation and a company's attractiveness to financial stakeholders from different angles. Specifically, I examine the role of corporate reputation in the context of the agency problem to explain the causal chain through which the uncertainties and risks are mitigated for investors. This dissertation contributes to the multifaceted conceptualization of reputation (1) by examining different economic values of overall corporate reputation and its pre-condition – visibility, (2) by considering reputation among different stakeholders – public stakeholders and financial stakeholders, and (3) by distinguishing two dimensions of financial reputation – trustworthiness and attractiveness. Acknowledging this multifaceted conceptualization of corporate reputation is crucial for firms to develop an effective strategy for reputation management, and further achieving competitive advantages. The overarching finding across the studies is that reputation management contributes to both attracting financial stakeholders and achieving a superior financial performance of the corporation. Particularly, I identified the mediating role of financial reputation in the mechanism through which public reputation affects financial performance. This result also contributes to the understanding of how reputations among different stakeholder groups affect financial performance differently.

ERiM

The Erasmus Research Institute of Management (ERIM) is the Research School (Onderzoekschool) in the field of management of the Erasmus University Rotterdam. The founding participants of ERIM are the Rotterdam School of Management (RSM), and the Erasmus School of Economics (ESE). ERIM was founded in 1999 and is officially accredited by the Royal Netherlands Academy of Arts and Sciences (KNAW). The research undertaken by ERIM is focused on the management of the firm in its environment, its intra- and interfirm relations, and its business processes in their interdependent connections.

The objective of ERIM is to carry out first rate research in management, and to offer an advanced doctoral programme in Research in Management. Within ERIM, over three hundred senior researchers and PhD candidates are active in the different research programmes. From a variety of academic backgrounds and expertises, the ERIM community is united in striving for excellence and working at the forefront of creating new business knowledge.

Design & layout: B&T Ontwerp en advies (www.b-en-t.nl) Print: Haveka (www.haveka.nl)

ERIM PhD Series
Research in Management

Erasmus Research Institute of Management - ERiM
Rotterdam School of Management (RSM)
Erasmus School of Economics (ESE)
Erasmus University Rotterdam (EUR)
P.O. Box 1738, 3000 DR Rotterdam,
The Netherlands

Tel. +31 10 408 11 82
Fax +31 10 408 96 40
E-mail info@erim.eur.nl
Internet www.erim.eur.nl