

# Corporate Reputation During Economic Crisis and Its Relationship With Financial Performance: A Conceptual Model for Asean Companies

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## Abstract

Corporate reputation is a growing issue for academics and practitioners. With globalization, such tactics are used especially in Western countries yet there are obvious lack of studies on corporate reputation measurement and the relationship between corporate reputation and financial performance in ASEAN companies. The literature concentrates on the US and European companies, especially on how the public rate companies, what are rating of companies, and what relationship occurs between corporate reputation and financial performance. Corporate reputation measurement during economic crisis and its relationship with financial performance in ASEAN is detailed in the model proposed.

## Keywords:

Corporate Reputation, Financial Performance, ASEAN Companies,

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## Introduction

Academic and practitioner interested in corporate reputations can be traced to the widespread visibility given to the topic by the periodic publication of corporate reputation ratings (Fombrun *et al.*, 2000; Gardberg, 2006; Schwaiger, 2004). For example, Fortune Magazine in USA, Management Today in the UK, Manager-Magazine in Germany, and Asian Business in Asia. The potential benefits of knowing the factors that make up corporate reputation and its relationship with financial performance for ASEAN companies are immense for both academics and practitioners.

The most important factor in measuring corporate reputation in ASEAN context is to determine dimensions of corporate reputation. These can be done using existing corporate reputation measurement and adding qualitative study (Fombrun *et al.*, 2000). A qualitative study could use in-depth interviews or focus group discussion to determine such factors (Fombrun *et al.*,

2000; Gardberg, 2006).

The relationship between corporate reputation and financial performance is still contestable amongst observers in the world (Sabate & Puente, 2003). With regards to this, this research develops a model that will attempt to develop the factors that measure corporate reputation and its relationship with financial performance. This can be seen through a three fold description. Firstly, to identify factors of corporate reputation in ASEAN companies; secondly, to examine corporate reputation ranking; and thirdly, to determine the relationship between corporate reputation and financial performance in ASEAN companies. Exploring these three issues will further enhance researchers understanding the factors that make up corporate reputation, corporate reputation rating, and the influence of corporate reputation on financial performance or vice versa.

## Literature Review

An examination of the pertinent literature indicates that companies with good reputation are thought to be trusted by stakeholders because it only requires relatively a shorter time to obtain gains because of the competitive advantage and higher output of such companies (Roberts & Dowling, 1997). They are also thought to have higher capital gain (Vergin & Qoronfleh, 1998) and good market performance (Jones *et al.*, 2000; Srivastava *et al.*, 1997). On the contrary, companies with bad reputation require a long time to obtain gains (Roberts & Dowling, 1997; Vergin & Qoronfleh, 1998). Despite this evidence on the effect of corporate reputation on company's performance, it is important to measure what is corporate reputation in order to classify companies into good or bad reputation and test their performance.

To date, studies on corporate reputation and financial performance are mainly done separately. There has been some studies that analyze close relationship, causal factor relationship and reciprocal relationship of corporate reputation and financial performance (Sabate & Puente, 2003). There are still differences of opinion regarding the relationship between corporate reputation and financial performance as to whether financial performance impinges on corporate reputation or on the contrary corporate reputation affects financial performance.

Studies on relationship between corporate reputation and financial performance are mainly conducted in developed countries, especially in the United States (Black *et al.*, 2000; Chung *et al.*, 1999; Corderio & Shambharya, 1997; Deephouse, 1997; Fombrun & Shanley, 1990; Hammond & Slocum, 1996; McGuire *et al.*, 1990; Preston & Sapienza, 1990; Riahi-Belkaoui &

Pavlik, 1991; Roberts & Dowling, 1997; Sobol & Farelly, 1988; Srivastava *et al.*, 1997; Vergin & Qoronfleh, 1998) and Europe (Dunbar & Schwalbach, 2000; Schultz *et al.*, 2001). Thus require arises to extend the body of knowledge outside the western societies. This is done by utilizing current thought on corporate reputation and financial performance and adding in-depth interviews of general public in ASEAN Countries. This allows for the inclusion of ASEAN business view of corporate reputation and financial performance.

In light of these gaps in current research, the proposed study has two key objectives. The first is to identify factors of corporate reputation in the ASEAN context. The second objective is to measure corporate reputation ranking that developed in the first objective (such as developed by Fombrun *et al.*, 2000). The third objective is to determine the relationship between corporate reputation and financial performance.

The importance of corporate reputation measurement and rating in corporate reputation literature (e.g. Fombrun *et al.*, 2000; Gabbionetta *et al.*, 2007; Gardberg, 2006) and a growing awareness of the impact of corporate reputation on financial performance or vice versa has led to the identification of a gap of research in this area currently (Sabate & Puente, 2003). Where there are still differences in opinion on corporate reputation measurement, corporate reputation rating, and relationship between corporate reputation and financial performance, result of this study will expand the body of knowledge in corporate reputation outside western societies to ASEAN societies.

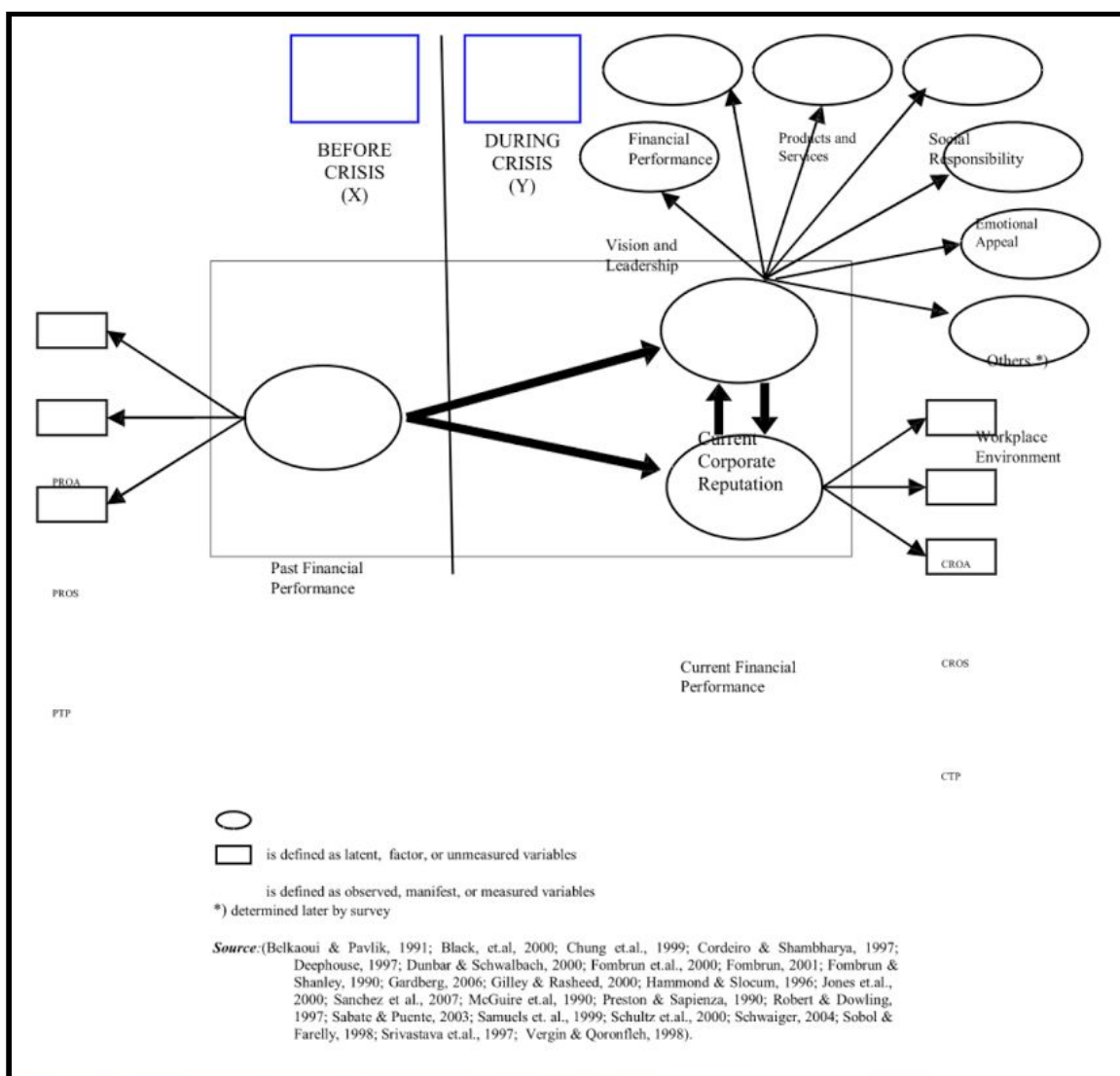
## The Proposed Conceptual Model

Corporate reputation factors by Fombrun et al (2000) are to be taken as an initial proxy to measure corporate reputation in ASEAN. There is a need for a detailed qualitative study to be done to determine other ASEAN based factors. This relationship between corporate reputation and financial performance can be summarized in the following conceptual model (Figure 1)

**Figure 1. Conceptual Model to Measure Corporate Reputation During Crisis and to Diagnose Relationship Between Corporate Reputation and Financial Performance in ASEAN Context**

As noted in Figure 1, given prior theoretical exploration in this area we can assume that section 'x' of the model (before economic crisis) consist past financial performance and its indicators. Past financial performance is financial performance five years ago before economic crisis (Gilley and Rasheed, 2000; Sanchez et al, 2007). That means financial performance five years before year 2008 or during year 2003 to year 2007.

The corporate reputation measurement and the relationship between corporate reputation and financial performance are therefore concerned with



section 'Y' of the proposed model. This model use corporate reputation factors by Fombrun et al (2000). There are six dimensions or factors of corporate reputation; emotional appeal, products and services, financial performance, vision and leadership, workplace environment, and social responsibility. The other factor(s) that will be determined from qualitative research by using in-depth interviews or focus group discussion. The result will be proposed as ASEAN Corporate Reputation or namely ASEAN Reputation Quotient (ARQ).

The financial performance will be measured by the past and current performance (Sanchez et al., 2007; Gilley and Rasheed, 2000). According to Gilley and Rasheed (2000) past financial performance

## Description of Methodology

The proposed research methodology that can be used to answer the proposed model questions (Refer Figure 1) can be obtained from both qualitative and quantitative analysis. Preliminary research will use qualitative methods such as in-depth interviews, coding and summarizing in order to determine whether other corporate reputation factor(s) beside the six factors by Fombrun et al (2000) exist. These different factors will be the ASEAN quotient of the new factors for corporate reputation.

This research will use a purposive sampling technique with established criteria for individual participant selection. A minimum of 75 respondents, 15 respondents from each ASEAN country should be obtained (Perry, 1998). This qualitative method will be used for every stakeholder groups (Dowling, 1994). There are four stakeholder groups are customer group, functional group, normative group, and diffused group respectively (Dowling, 1994).

The main research will use quantitative method and take sample companies from ten most known companies from every ASEAN countries, to form a total

data from the past five years were used to minimize the effects of annual fluctuations (Roth, 1992). The current financial performance data refers to the last twelve months (Gilley and Rasheed, 2000).

Relationship between corporate reputation and financial performance were showed by bold arrows in Figure 1. The other arrows show factors and indicators. There are three kind of relationship in Figure 1. Firstly, relationship between past financial performance and current corporate reputation; secondly, relationship between current financial performance and current corporate reputation; and thirdly, relationship between past financial performance and current financial performance, all these will be tested simultaneously.

of 50 companies. A minimum of 102 respondents should be obtained for every company. This would make a total of 5100 respondents to be surveyed in order to allow for meaningful statistics to be calculated from the responses. General public respondents in the category of 17 to 65 years have been identified as sampling targets according to their stakeholder groups.

### *Data Collection Instrument*

The data collection instrument is divided into three sections: Section one comprises items relating corporate reputation indicators with scales sourced from established studies relating to corporate reputation (e.g. Fombrun et al, 200; Gardberg, 2007) and additional indicators from preliminary research. Respondents will be asked to respond to seven- Likert scales (level of agreement on a scale of 1 to 7 with 7 being strongly agreed).

Section two and section three include items relating to past financial performance and present financial performance. Again, we will use established scale items (Gilley and Rasheed, 2000; Sanchez et al, 2007). Respondents will be asked to indicate the company's return on asset, return on

sales and total profitability compare similar companies in their industry for two periods: the last 12 month (present financial performance) and five years ago.(past financial performance). Respondents will asked to respond to seven-Likert scales (with 1 is worst in industry and 7 being best in industry).

#### *Data Analysis*

Our basic analytical strategy will use Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM). We will use SPSS software to apply EFA and AMOS software to apply CFA and SEM (Hair et al., 2006; Loehlin, 1992) technique to analyze the data. EFA and CFA provide corporate reputation factors and confirm the financial performance factor. Structural

### **Conclusion**

This paper briefly reviewed the process now under way for developing an ASEAN Reputation Quotient (ARQ) and the sequence of steps involved in measuring corporate reputation in ASEAN companies. In the initial stage the authors focused on the conceptual equivalence of corporate reputation across national environments in ASEAN countries by expanding the existing corporate reputation measurement (Fombrun et al, 2000; Gardberg, 2006). In the next steps authors will used in-depth interviews or focus groups discussion to explore further to explore further corporate reputation's content in ASEAN context and tests using quantitative methods; such as exploratory factor analysis and confirmatory factor analysis. This will produce the fix factors of corporate reputation in ASEAN context, namely ASEAN Reputation Quotient (ARQ).

At the end of cross-national effort the authors hope to have a validated scale for measuring, comparing, and studying corporate reputation in ASEAN companies. The resulting instrument, the ASEAN Reputation Quotient (ARQ) will be emerged as a valid, reliable and robust tool for

Demographic information (e.g. gender, age, stakeholder group, etc) will also be collected to allow for the representative nature of the samples to be reviewed and sampling frames adjusted if necessary. This process will also allow for peer review of the sampling frame by other academics working in corporate reputation areas.

Equation Modeling (SEM) provides a clear and flexible way to observe whether relationships exist amongst dependent variables (current corporate reputation and current financial performance), as well as noting causal relationships between dependent and independent variables (past financial performance, current corporate reputation and current financial performance).

measuring corporate reputation in ASEAN Companies. Researchers and practitioners will then have instruments with which to measure and quantify corporate reputation across national environments within ASEAN, as well as to examine reputation's antecedents and consequences.

The relationship between corporate reputation and financial performance could be done after an ASEAN Reputation Quotient (ARQ) was calculated. Figure1 show the conceptual model to measure corporate reputation and to diagnose relationship between current corporate reputation (during economic crisis since 2008 up till now or the last twelve months) and financial performance from two periods of time (Gilley & Rasheed, 2000). Current financial performance (the last twelve months) and past financial performance (five years ago) were used to minimize the effects of annual fluctuations (Roth, 1992). In ASEAN context, the relationship pattern on Figure 1 (show by bold arrows) cover all possibility of relationship between corporate reputation during economic crisis as current corporate reputation, financial performance before

economic crisis as past financial performance, and financial performance during economic crisis as current financial performance. The real relationship pattern will find by using analysis proposed.

Finally, the whole result of this paper is corporate reputation measurement and the relationship between corporate reputation and financial performance. The ASEAN Corporate Reputation as a diagnostic and benchmark tool for measuring corporate

reputation for all companies in ASEAN countries. Whatever the kind of relationship will happen, applying this model will clarify better the red line of relationship between corporate reputation during economic crisis and financial performance. Applying this model during economic crisis will contribute to theory of corporate reputation and knowledge regarding the relationship between corporate reputation and financial performance during economic crisis.

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