



AN EMPIRICAL STUDY ABOUT THE RELATION BETWEEN REPUTATION MANAGEMENT AND CUSTOMER LOYALTY

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ЕМПИРИЧНО ИЗСЛЕДВАНЕ НА ВРЪЗКАТА МЕЖДУ АВТОРИТЕТНОТО
УПРАВЛЕНИЕ И ЛОЯЛНОСТТА НА КЛИЕНТИТЕ

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ABSTRACT: *The concept of reputation has proven to be one of the major innovative trends in corporate management, in recent years. The management of corporate reputation becomes a popular issue that academics are interested in. Corporate reputation is the result of a signaling activity based on available information about a firm's actions. Reputation is also a yardstick of the firm's relative standing routinely used by both internal and external stakeholders when making firm-related decisions. According to academics, 'good reputation' and 'improved relationship with key stakeholders' reinforce each other. There are lots of recent theoretical and empirical studies that outline the positive relationship between good reputation and competitive advantage. The aim of this study is to define the relationship between the customer's perception of the company reputation dimensions and their loyalty to the company. For this purpose, this study is conducted in an active passenger transportation firm's customers in Turkey. As a result it is found that there are significant relations between the dimensions of the corporate reputation and the loyalty of the customers.*

Key words: Reputation management, customer loyalty, passenger transportation companies.

Introduction

While competition has increased, product life expectancy has shortened as a result of globalization in today's business world, establishments try to find new products or services in order to create value to be chosen by more customer. Reputation management is an important way to achieve competition advantage and provide customer loyalty in today's business world.

Since the mid-1980s senior managers have recognized the strategic necessity of building and sustaining a favorable corporate reputation to create corporate competitive advantage. This recognition has been mirrored by a wealth of academic publications that have highlighted the value of a favorable corporate reputation as a means of enhancing an organization's financial value, influencing intention to buy, acting as a mechanism for assuring product/service quality, influencing customer and employee loyalty, and offering inimitability to the organization. Authors over the years have also recognized that an organization's corporate reputation is affected by the actions of every business unit, department

and employee that comes into contact with another stakeholder [1].

Reputation is a powerful concept for business, government and non profit organizations, just as it is for individuals. Executives, administrators, external and internal stakeholders and supporters of organizations all use the concept of reputation routinely to evaluate and communicate their perceptions about organizations [2].

Corporate reputation is seen as the outcome of a competitive process in which firms signal their essential characteristics to constituents to maximize social status. The cumulative value judgment by the public over time provides the company with significant competitive advantages [3]. Although the high level interest in reputation, business and society scholars have not focused on reputation management much. The aim of this study is to define the relationship between the customer's perception of the company reputation dimensions and their loyalty to the company. For this purpose, this study is conducted in an active passenger transportation firm's customers in Turkey. As a result it is found that there are significant relations between the dimen-

sions of the corporate reputation and the loyalty of the customers.

Defining Reputation and Corporate Reputation

In German parlance, reputation is a synonym to esteem and renown. In American dictionaries we may find reputation defined as "... what is generally said or believed about the abilities, qualities etc of somebody/something" [4].

Strategy scholars have pursued reputation as a resource for the firm and, as such, something that has value and can be managed and in some way contribute to competitive advantage in the marketplace of goods and services. Social issue scholars have tried to look at reputation as an asset for the firm in the marketplace. Marketing scholars have extended reputation to include the branding of products and services [5].

Reputation is vitally important to a firm because it impacts bottom-line profitability through its ability to attract employees to its jobs, investors to its securities, and customers to its products. Because of its impact on the beliefs and actions of employees, customers, suppliers, stockholders, and other relevant stakeholders, one key responsibility of top managers is protecting and enhancing firm reputation [6].

Dentchev and Heene [7] indicate that reputations are necessary bridges between companies and stakeholders. Reputations translate past, present and intended future actions into an understandable information signal for any stakeholder language.

The concept of corporate reputation has been studied by researchers in the fields of economics, organizational theory and marketing. Economists analyze issues of reputation in relation with product quality and price. Organizational researchers examine reputation as being a social identity and portray it as an important and intangible resource which may significantly contribute to an organization's performance, and even to its survival. Authors in marketing study reputation under the rubric of brand equity and associate it with the credibility of the firm [8].

Although the term corporate reputation is increasingly used in business and marketing literature, a single precise definition does not exist. At the heart of corporate reputation must be core values that help guide external and internal operations. The authors would argue that: 'corporate reputation is the sum of the values that stakeholders attribute to a company, based on

their perception and interpretation of the image the company communicates and its behavior over time.' A company's standing in the community and in the marketplace all help shape its reputation [9].

Corporate reputation can be defined in terms of a number of attributes that form a buyer's perception as to whether a company is well known, good or bad, reliable, trustworthy, reputable and believable. Corporate reputation is concerned with how people feel about a company based on whether information (or misinformation) they have on, company activities, workplace, past performance and future prospects [10].

Corporate reputation can be considered to be a valuable strategic resource that contributes to a firm's sustainable competitive advantage [11].

Corporate reputation can be seen as "a particular type of feed-back received by an organization from its stakeholders, concerning the credibility of the organization's identity claims. Corporate reputation is also part of the intangible assets a firm can use in order to differentiate itself from its competitors [12].

Corporate image can be created, but corporate reputation must be earned. Whereas corporate image can be seen as the latest thoughts or beliefs stakeholders may hold about a company, corporate reputation represents the long-term collective assessment of a corporation's integrity [13].

Numerous researchers in marketing have recognized the critical roles of corporate image and corporate reputation in customer's buying behavior. These two constructs are particularly important in developing and maintaining a loyalty on the part of customers [14].

Defining Reputation Management and Customer Loyalty

Many of the academic studies that have focused on corporations' reputation management activities have tended to simply assume that organizations are moving toward a reputation management perspective, redefining traditional public relations and communications activities as reputation management [15].

Davies and Miles simply assumed that reputation management existed and was a growing function within the organizations studied, despite the fact that only a small minority of respondents described their function as reputation management [16].

On the other hand, some advocates see reputation management as a guiding new force or paradigm for the entire field, in keeping with Warren Buffet's admonition that losing reputation is a far greater sin for an organization than losing money. The most common concerns of reputation-management advocates revolve around *measures* of reputation management, which have been criticized as unstable and invalid (in terms of construct validity, discriminant validity and other types of statistical validity). A number of observers have suggested that reputation is a meaningful concept only as it applies to specific audiences or publics, and that no across-the-board measure of reputation is or can be valid for all stakeholders [17].

Since corporate reputation is a value-based composite that includes commercial, compliance, and social responsibility attributes, it is critical to assess the ways in which it interacts with the

many areas of an organization. The effective management of reputation can yield a variety of advantages that translate to long-term strategic benefit [18].

The building of a firm's reputation needs many good transactions over time, while its destruction can be easily caused by a mixed signal to markets or a bad action directed at a particular group. The nature of a firm's reputation depends on the results of its perceived actions in this period. If the repeatedly succeeds to fulfill its promises, it should have a favorable reputation; and inversely, the firm's failure to respect its expressed intentions may create a negative reputation [19].

Corporate reputation plays a role in value creation and should be considered as a long-term asset with enduring properties [20]. Figure 2 illustrates the process of reputation management [21].

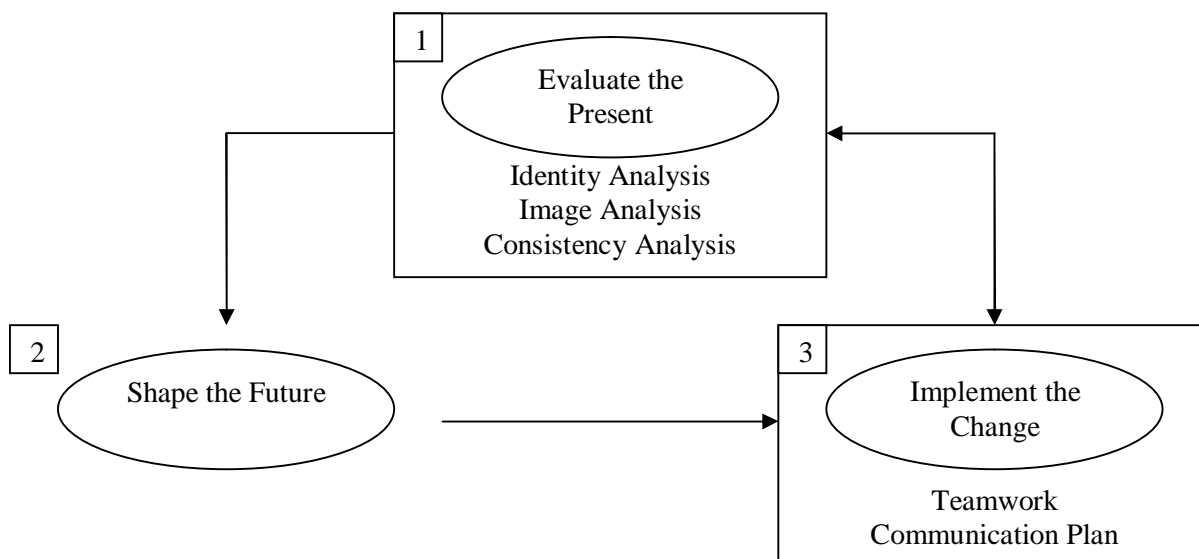


Fig.1. The process of reputation management

A strong corporate reputation increases customers' confidence in products and services, advertising claims and in the buying decision. Via better customer retention firms can achieve price premiums and higher purchase rates. Taking into consideration that companies showing strong reputation have better access to capital markets, which decreases capital costs and lower procurement rates, it is obvious that a company's profitability *ceteris paribus* grows with a better reputation [22]. This reputation effect may be referred to as excess loyalty.

Loyalty is defined as a customer's intention or predisposition to repurchase from the same firm again [23]. Loyalty is greatly affected by the

relative strength of the relationship between attitude and behavior [24].

Customer loyalty is the behavioral outcome of a customer's preference for a particular brand from a selection of similar brands, over a period of time, which, importantly is the result of an evaluative decision-making process [25].

The typically loyal customer can be described as the one who repeats purchases; brand loyalty cannot always be measured by purchase behavior since the decision to buy a brand can be influenced by other moderating variables such as social norms and situational factors [26].

As such, it encompasses an affective component as well as a behavioral dimension. As an affective state, loyalty represents a psychological

reaction and conviction to a product or service experience. The behavioral dimension is simply a manifestation of that affective state, which is sometimes equated with customer retention. In other words, loyalty encompasses intended behavior and whether or not the intended behavior actually occurs [27].

Recent research [28]-[29]-[30]-[31]-[32]-[33]-[34]-[35]-[36] redefines loyalty as both a behavioral and attitudinal construct. In keeping with this two-dimensional conceptualization, customer loyalty is defined here as an attitudinal preference for the retailer accompanied with strong repeat purchase behavior [37].

The Relation between Reputation Management and Customer Loyalty

A good reputation can for example, reduce barriers to competition and open new markets; attract the best recruits, supply chain and business partners; enhance access to capital and investors; create a premium value for products and services; and protect the business in time of crisis [38].

Sustainable competitive advantage is created primarily from intangible capabilities, notably innovation, organizational architecture, strategic assets, and reputation. These capabilities serve as the foundations for the direct sources of competitive advantage: cost advantages arising from privileged access to critical assets and proprietary technology; customer captivity via habit formation, high switching costs, and high substitute search costs; economies of scale; and other factors, such as government protection or superior access to information. Of those capabilities underlying competitive advantage, reputation plays a central role in certain types of consumer buying decisions [39].

Numerous researchers [40]-[41]-[42]-[43]-[44]-[45]-[46] have recognized the critical roles of corporate reputation in customer's buying behavior and loyalty.

Researchers argued that corporate image – part of reputation – is an antecedent to customer loyalty. Later, it was concluded that reputation may be loyalty's strongest driver [47]. Corporate reputation is a global and final outcome of the process of building a corporate image. However, based on the meaning generally accepted for each concept, one observes that both corporate image and reputation are the external perceptions of the firm. The former is the firm's portrait made in the mind of a consumer, while the latter is the

degree of trust (or distrust) in a firm's ability to meet customers' expectations on a given attribute. Corporate image and reputation are thus the results of an aggregation process which incorporates diverse information used by the consumer to form a perception of the firm [48]. In general, the reputation of a firm is perceived as the strong relationship between the customers and the organization, which is viewed as client relationship-building. That is considered being an important element that contributes to successful organization [49].

When a company is perceived well, name alone is enough to signal to others that its products, services, or transactions will be reliable and match expectations. The benefits of corporate reputation and image have even been demonstrated by customer choice in the midst of uncertainty about product offerings. When faced with the purchase of a new item, customers assess product attributes, but also consider the profile of the firm. Consumers who are happy with one product manufactured by a multi product company are thus more likely to purchase another offering from the same company. This reputation effect may be referred to as excess loyalty [50].

In an investigation on service quality and customer loyalty in the commercial airline industry is find that “a passenger's image of the carrier which is based on long-term experiences encompassing many service encounters is more important in explaining customer loyalty than is the evaluation of the current, single flight”. They also argue that the consumer may consider a bad experience as an exception to his whole impression of the service provider. In addition, this study suggests a consistent and significant relationship between the reputation of the carrier and customer loyalty [51].

Research Methodology

The data's for this study was collected from a national transportation firm's passengers. During their travels the questionnaire form was hand out by the officers and totally 260 questionnaires were collected.

As shown in table 1, 45% of 260 participants are male, and 55% are female. 76% of 260 participants are under 37 years old, and 24% of over 37 years old. One quarter of participants completed university education, 62% of them completed high school.

Table 1 Descriptive Statistics

		N	%
Sex	Male	117	45
	Female	143	55
Age	Under 37	197	76
	Over 37	63	24
Education	Primary	32	12
	High School	162	62
	University	65	25
	Other	1	1

Customer based corporate reputation was measured with twenty eight items (Cronbach's alpha= 0.93) adapted from the previous studies [53]-[54]-[55]. The scale was anchored with strongly disagree (1) and strongly agree (5). Customer loyalty was measured by fifteen items (Cronbach's alpha= 0.89). Fifteen statements related to the customer loyalty were taken from the scale used by McMullan (2005) in their study.

The items are showed below:

- Firm's employees are responsible
- Firm's employees are competent
- Advising firm's services
- Pleased with travelling by this firm
- Firm is responsible to their customers
- Think about firm is managed well
- Firm's service quality is more superior than others
- Stands behind the services that it offers
- Offers high quality services
- Develops innovative services
- Firm is responsible from their services
- I appreciate this firm
- I esteem this firm
- I have positive feelings about this firm
- I believe this firm
- This firm doesn't give missing information to their customers
- There is a harmony among firm's sales offices
- There is a strong communication between firm's employees and customers
- There is a good communication among firm's employees
- This firm's financial resources is strong
- Looks like it would be new investments
- This firm doesn't have financial problems
- Seems to have a clear vision of its future
- This firm is sensitive to the environment
- Public relations is important in this firm
- This firm encourages useful activities for society
- This firm honest to the society.

- This firm is sensitive to the society

According to results of factor analysis six factors were found. These are corporate operation, service quality, emotional attractions, communication, financially strong, and social and environmental responsibility. Arithmetic means of the item groups are presented below:

Table 2 Means of Group

Determinants	Mean	Pearson r	Beta
Corporate Operation	3.62	0.485**	0.370
Service Quality	3.52	0.534**	0.285
Emotional Attractions	3.58	0.445**	0.158
Communication	3.24	0.528**	0.211
Financially Strong	3.72	0.313**	0.193
Social and Environmental Responsibility			
R ²			0.542
Adjusted R ²			0.531

** p<0.001

Correlation analyses results indicate a positive and significant relationship among loyalty and corporate reputation ($r = 485$, $p < 0.001$); a positive and significant relationship among loyalty and service quality ($r = 534$, $p < 0.001$); a positive and significant relationship among loyalty and emotional attractions ($r = 445$, $p < 0.001$); a positive and significant relationship among loyalty and communication ($r = 528$, $p < 0.001$); a positive and significant relationship among loyalty and financially strong ($r = 313$, $p < 0.001$). According to correlation analyses among customer loyalty and social and environmental responsibility there is no relationship.

As shown in Table 2, the means of groups are variable. The average of determinants in order to means, corporate operation 3.62, service quality 3.52, emotional attractions 3.58, communication 3.24 and financially strong 3.72. This shows that the results are concentrates in "I agree" section. By this way, the participants largely agree the items and they thought that reputation is linked with loyalty.

Conclusion

The present research contributes to the body of knowledge by testing the moderating relationship between corporate reputation and customer loyalty. However, given the great diversity of service industries, it would be helpful to realize similar studies in other service settings.

It can be said that “corporate operation”, “service quality”, “emotional attraction”, “communication” and “financially strong” factors influenced the customer loyalty positively. All the results are limited to the company in which the research is conducted. Any other research may result in different findings. This study investigated the effect of customers' corporate reputation perceptions on customer loyalty. However, the results of this study may or may not generalize to other constructs, such as satisfaction or repurchase intentions. Future research should explore whether other constructs are affected in a fashion similar to loyalty. Similar comparative research for other enterprises or different sectors can provide a needed knowledge background.

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