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Christine Falkenreck

Reputation Transfer to Enter New B-to-B Markets

Measuring and Modelling Approaches

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Measuring and Modelling Approaches

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Dr. Christine Falkenreck
University of Kassel
Head of International Marketing Research
Mönchebergstr. 17
34125 Kassel
Germany
christine.falkenreck@t-online.de

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Preface

An increasing number of products and services are not differentiated by inherent features, but by the vendors, particularly their reputation and marketing communication. Consequently, a positive reputation provides competing vendors with a virtually inimitable competitive advantage.

Contemporary research concerning antecedents and consequences of reputation in the domain of marketing is dominated by branding and line extension issues. Organizations' communication efforts and the relation of reputation and the communication media are not fully understood; nor have they been challenged up to now. Moreover, customers' perception of reputation is clearly embedded in their cultural context.

However, contemporary marketing research restricts both conceptual and empirical considerations to Western-type cultures. Frequently, even the differences in Western-type cultures are neglected.

Considering these shortcomings in contemporary marketing research, Dr. Christine Falkenreck investigates the opportunities and limits, and also the potential benefits and dangers of transferring a vendor's positive reputation to product categories never produced or offered by the considered vendor.

Embedding the empirical investigation of both reputation management and reputation transfer in a coherent theoretical framework, which is grounded in the Commitment-Trust theory, is her merit. She derives and validates an integrated model that appears to be valid in all cultures considered in her study. The results of this analysis contribute substantially to our understanding of reputation measuring and managing. These results are not restricted to academic interests and they provided practitioners with a variety of new insights. Thus, this thesis will hopefully be widely discussed in both academia and management practice.

Working with Dr. Falkenreck is an outstanding experience. Hopefully she will continue to engage in scientific marketing research.

Bielefeld, 17 May 2009 Ralf Wagner

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Like a new product, a thesis follows a development process before its launch. A successful outcome is largely determined by the development process and the people who contribute to it. For this reason, there are a number of persons I would particularly like to thank for their input, help and support during my doctoral research.

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While I was writing this Ph.D. thesis, a vast number of people helped me in various ways. Thanks to my non-marketing researcher friends, Barbara, Eric, and Selli, for reminding me that however important and world-changing I think my work is, in the grand scheme of things, there are many other important things to do.

Last but not the least, I would like to express my utmost gratitude to my dear parents, Uwe and Christel Moll, my little sister Sabine, and my husband, Andreas, for their support during the last 2 years.

I dedicate this work to the best daughters in the world, Thora and Celia, of whom I am very proud.

Christine Falkenreck

Contents

Abbreviations

AMAC	America's most admired companies
B-to-B	Business-to-business
B-to-C	Business-to-consumer
CC	Corporate communications
CR	Corporate reputation
e.g.	(exempli gratia) for example
IDV	Individualism
i.e.	(id est) that is
KBV	Knowledge-based view
LV	Latent variable
MAS	Masculinity
WOM	Word of mouth
n.a.	Not applicable
n.s.	Not significant
NWOM	Negative word of mouth
SEM	Structural equation model
SET	Social exchange theory
SR	Sales representatives
PWOM	Positive word of mouth
PDI	Power distance index
RBV	Resource-based view
RM	Relationship marketing
RQ	Reputation quotient
UAI	Uncertainty avoidance index

Formula Symbols

η	Vector of the dependent (endogenous) latent variables
ζ	The unexplained variance
ξ	Vector of an exogenous latent variable
R^2	Variance explained
Q^2	Stone–Geissers cross-validated R^2
f^2	Effect size
γ_i	Coefficient capturing effect of indicator x_i
z	Test value
VAF	Variance inflation factor
r_i	Regression coefficient

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Chapter 1
Definition of Research Problem

> In today's world, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force, propelling our economy forward. (Alan Greenspan 1999).

This quotation of Alan Greenspan (1999) summarizes the importance today of corporate reputation (CR). This work is about creating global corporate reputations – using reputation transfer to enter new markets more easily – and focuses on special impact factors on both reputation and reputation transfer in the B-to-B context.

1.1 Introduction

Researchers recognize organizational reputation as a valuable intangible asset that contributes to organizational performance. However, limited attention has been paid to the extent to which CR encompasses different stakeholders' perceptions that may have differential effects on the positive economic outcomes associated with the possession of a favorable reputation (Rindova et al. 2005). Thus, CR has been the focus of much academic research (e.g., Deephouse, 2000; Lewellyn 2002; Longsdon and Wood 2002; Eberl 2006; Helm 2007; Bromley 2002; Fombrun et al. 2000; Walsh and Wiedmann 2004; Fombrun and Shanley 1990; Hall 1992). It captures a combination of social and economic contributions that a firm makes to its various stakeholders (Helm 2007; Bromley 2002). Reputation provides a company with sustainable competitive advantages (Barney 1996) because it influences stakeholders' economic choices vis-à-vis the organization (Deephouse 2000).

In 1997, Doney and Cannon called for more research that investigates the role of national culture on buyer-seller relationships in general. Prior cross-cultural studies in marketing have focused on various issues: advertising (Alden et al. 1993), product development (Nakata and Sivakumar 1996), fairness (Kumar et al. 1995), organizational culture (Deshpandé et al. 2000), innovativeness (Steenkamp et al. 1999) and customer benefits (Homburg et al. 2005). Nevertheless, cross-national

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differences in B-to-B marketing management have largely been neglected (Homburg et al. 2005), especially in the field of corporate reputation research (Gardberg 2006; Walsh and Wiedmann 2004). Although there are many studies of relationship marketing, they are mostly based on national data sets (Homburg et al. 2005).

Surprisingly, the factors "reputation" and "national culture" are discussed separately in recent research: Walsh and Beatty (2007) investigate the impact of customer-based CR on service firms' performance, while Hewett et al. (2006) evaluate the influence of national culture and industrial buyer-seller relationship in the US and Latin America and Griffith et al. (2006) investigate culture's influence on relationship and knowledge resources between the US and Japan. Very few empirical studies apply the America-based measurement concept "Reputation Quotient" (RQ) of Fombrun et al. (2000) outside the US (Gardberg 2006; Walsh and Wiedmann 2004; Aperia et al. 2004) – the aim was not to learn about cultural differences, but to test RQ measures internationally. Moreover, the studies concerned with reputation management and related fields of image transfer, as well as brand extensions, make up a continuum of the basic entity under consideration (Bromley 2002).

According to Fombrun (1996), a company's reputation is determined by four main elements: its values, actions it takes, open-minded and honest communication, and general company image. Völckner and Sattler (2006) as well as Doney and Cannon (1997) define a company's reputation as the extent to which firms and people in the industry believe a company is honest and concerned about its customers. Unfortunately, what is defined as "honest and concerned" varies significantly across cultures and, therefore, leads to different perceptions of CR on the one hand and different possibilities of reputation transfer on the other.

It is also true that a company can have a negative CR (Bromley 2002). What about a definition of CR if at least a certain stakeholder group believes a company is "devious" and "unconcerned"? Whether all types of stakeholders base their perceptions of CR on the same fundamental set of dimensions or on specific expectations, is still discussed controversially (Bromley 2002; Fombrun et al. 2000; Gatewood et al. 1993), leading to a variety of research questions such as:

- Do companies have one reputation or many? (Fombrun and Shanley 1990; Bromley 2002).
- Reputation for whom or for what purpose? (Lewellyn 2002).
- Do stakeholder groups use different criteria to evaluate a company's reputation? (Meffert and Bierwirth 2002; Helm 2007).
- If the criteria to evaluate CR are different, is there also a difference between CR in the context of B-to-B and B-to-C, and what about a cross-cultural impact on CR?

Popular measurement approaches of the "most visible companies" (Fortune 500-index) or so-called "reputation rankings of most admired companies" can hardly be applied to the "most invisible companies" in the field of Business-to-Business (B-to-B) relationships, companies just known by their own limited range of products, employees, competitors, suppliers and customers. Fortune magazine's *America's Most Admired Company* (AMAC) survey, as well as a similar study by Britain's *Sunday Times*, use determinants on CR like advertising or visibility in the media. Even charitable contribution (Fombrun 1996) is difficult to evaluate if applied to companies working in the field of B-to-B. The Harris-Fombrun Reputation Quotient (RQ), the Financial Times/Price WaterhouseCooper *World's Most Respected Companies*, the Hill and Knowlton/ Economist Intelligence Unit *Corporate Reputation Watch* are all focused on decisive determinants of reputation for companies working in the B-to-C context. How can these millions of perceptions be captured and measured or managed?

Today, companies need to differentiate themselves from their competitors, as products are more and more interchangeable. An overarching reputation in this context is a strategic tool for managing a company's external presence in global markets. To manage these corporate reputations – as they can vary from country to country, from stakeholder to stakeholder, or from decade to decade – they must be measurable (Fombrun 1996; Fombrun and Gardberg 2002; Helm 2007). Unfortunately, neither researchers nor practitioners have yet found a cross-nationally valid instrument to measure reputation (Fombrun and Wiedmann 2001; Fombrun and Gardberg 2002).

Corporate reputation radiates a strong company appeal-it helps companies to obtain good employees, makes customer acquisition easier, increases customer loyalty, can be implemented as a competitive performance factor and is helpful for the procurement of capital (e.g., Wiedmann and Buxel 2005; Helm 2007; Dowling 2001; Little and Little 2000; Eberl and Schwaiger 2005). The literature on reputation in general has been growing in recent years (e.g., Fombrun et al. 2000; Fombrun and van Riel 1997; Dunbar and Schwalbach 2000; MacMillan et al. 2005), although it is still restricted to the B-to-B context.

Interest in CR is growing while the globalization of companies is entering a new phase. Compared with one of the new "global players", the Chinese computer company, Lenovo, its major competitors, IBM, DELL and Hewlett-Packard, may feel old-fashioned and conservative: Lenovo has no headquarters, venues for meetings of its senior managers rotate among its bases around the world, and its development teams consist of people in several centers around the world, often working together virtually (Bishop 2008). When it became a global brand in 2005, the company located its marketing department in Bangalore and made huge efforts to integrate the different cultures within the company to divert from its image as a "Chinese company". IBM, instead of selling its PC business to Lenovo, could have used its valuable reputation to position against such newcomers. In times of sharp increases in the number of new companies in emerging markets, there is no weapon more effective than this inimitable resource of corporate reputation as one of the "best known American companies" (Fortune 500).

The study is located in the context of relationship marketing, which comprises the new institutional economic approach, the network approach and the behavioral approach (Kotler and Keller 2006).

- The new institutional economic approach uses modern economic theories to explain the development and breakdown of relationships like transaction cost theory and agency theory.

- The network approach focuses on the interactive character of relationships in the field of B-to-B marketing and takes an inter-organizational perspective.
- The behavioral perspective of relationships refers to relational constructs like trust and satisfaction, the conceptualization and economic evaluation of customer commitment.

Referring to the commitment-trust theory of Morgan and Hunt (1994), as well as to more recent resource-based and knowledge-based views, the concept of corporate reputation in this work is part of the behavioral perspective of relationships. The framework of the commitment-trust theory integrates elements of relationship marketing as a strategic option (Morgan and Hunt 1994). As customer commitment does not necessarily lead to customer loyalty (Fullerton 2003), relationship marketing needs to incorporate further activities (Homburg and Krohmer 2006).

Although widely outlined, the concept of CR today still seems to lack an agreed theoretical basis, and this limits practical applications (Bromley 2002) and the comparison of hypotheses results. With reference to the B-to-B context, little is known about the cross-cultural impact factors on CR: The use of direct marketing media, word-of-mouth communication (WOM), the perceived innovativeness of a company and the importance of trust. Therefore, in this study the author investigates two dimensions that reflect:

- how an organization is perceived in the minds of stakeholders from different countries (corporate reputation) and what influences this perception.
- the extent to which an organization is perceived by its customers as being able to produce a new product range (reputation transfer on pharmaceuticals) which differs significantly from the core products (medical devices).

A structural model of the suggested impact factors on reputation is developed and tested using data from Australia, Finland, Germany, Russia and Spain in the empirical context of organizational buyers.

1.2 Structure of Work

Marketing in the B-to-B context is very different from marketing in the B-to-C context (e.g., Backhaus and Voeth 2007). Are all the above perceptions of reputation in all contexts of equal importance? Can we expect the reputation of a B-to-B company to be influenced and generated by the same factors as in the context B-to-C? Is it really feasible and adequate to have one single measurement construct of corporate reputation, if there are so many different stakeholder groups in different contexts? In order to address the research questions, this work is structured in seven parts: theoretical (Chaps. 1–3), empirical (Chaps. 4–6) and "learning" (Chap. 7). This work introduces and tests a structural model that aims to extend the commitment-trust theory framework (Morgan and Hunt 1994) with respect to a company's reputation and comprises national culture as a determining variable for both reputation and reputation transfer.