

**CORPORATE REPUTATION AND FINANCIAL PERFORMANCE OF
COMPANIES LISTED IN THE NAIROBI STOCK EXCHANGE**

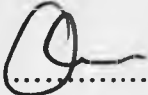
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
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DECLARATION

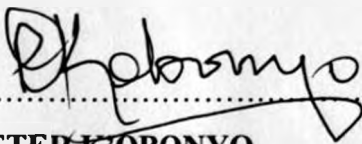
This management research project is my original work and has not been presented for examination in any other university.

Signed.......... Date.....15/11/2013.....

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D61/8729/2006

This management research project has been submitted for examination with my approval as university supervisor.

Signed.......... Date.....15/11/2010.....

PROF. PETER K'OBONYO

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ACKNOWLEDGEMENT

DEDICATION

To my Mother Peninah and Shirlene my daughter; the legacy continues

ACKNOWLEDGEMENT

I would like to acknowledge the following persons whose contributions facilitated the completion of this project.

First, I thank the Almighty God for the gift of life and for giving me the skills, knowledge, resources and energy to be able to complete this paper.

Special thank you goes to my supervisor Prof. Peter K'Obonyo for shaping the project idea into a meaningful form, and for his consistent and insightful reviews. Without his encouragement and patience, it would have been difficult to complete this project.

To all of you whom I cannot mention by names wherever you are I say a big THANK YOU!

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ABSTRACT

The PriceWaterhouseCoopers has been carrying out surveys on CEO's Most Respected Companies in East Africa since 1999. These companies also continue to showcase their financial soundness as they have been profitable over the years. No study has been undertaken to date to establish the link between these companies' reputation and their financial performance in Kenya. A study on Kenya is necessary because the business environment in Kenya is quite different from those of the developed nations where studies on reputation have been carried out before. The objective of this study was to establish the relationship between company's corporate reputation and financial performance.

This was a relational study of listed companies on the Nairobi Stock Exchange market. The target firms were the 56 firms listed on the NSE. The respective companies were asked to identify their major customers who were approached to take part in the study. Thus, there were 140 employees and 140 customers in the final sample size. Data was collected using questionnaires. These questionnaires were administered using drop and pick later method. Secondary data, especially the financial performance were obtained from the companies' financial statements. Descriptive statistics such as mean scores and standard deviations were used to analyze data using the SPSS. Further, correlation analyses were used to establish the relationship between the independent variable and firm performance as measured by sales growth and return on assets.

The study found no significant differences between employee and customer view of corporate reputation. The study also found that the corporate reputation gap for firms listed on the Nairobi Stock Exchange is low. It was also noted that corporate reputation influenced both future sales and return on assets but these relationships were insignificant. The study concludes that when the employee perception of the firm reputation exceeds that of the customers (positive gap), there is much more favorable company performance and the converse is also true.

These results have several important implications. The results reveal that it is shortsighted to focus entirely on projects designed to increase reputation among consumers, as marketing managers may do. There is also need to question the previous emphasis on alignment between consumer and employee perceptions. This study suggests that the alignment of affective associations between employees and customers should be seen in a very different way. If, over time, employee perceptions can be consistently kept above those of customers, this and not the alignment of the two are optimal.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations of all types are under increasing pressure from a host of stakeholders to be more responsive to their needs and interests. At the same time, market forces and the objective of a publicly-traded corporation demand greater shareholder return-on-investment. These competing forces cause conflict within organizations about the value of reputation (Schreiber, 2008). On one hand, most people would agree with the view that developing, building and maintaining a good reputation is important to virtually every organization in society, whether it be a for-profit or not-for-profit. At the same time, there are some people who still believe in the maxim of Friedman (1970) that the only purpose of a corporation is to increase profits and to build wealth for investors, with reputation seen as something that is “nice to have”, but an expendable cost.

Corporate reputation is a relatively new way of looking at a business. Few organisations have a reputation manager or reputation departments. The reputation of any organisation may influence the financial health of any organisation. For service organisations, reputation may determine financial performance. Corporate reputation is a ‘soft’ concept. It is the overall estimation in which an organization is held by its internal and external stakeholders based on its past actions and probability of its future behavior. The organization may have a slightly different reputation with each stakeholder according to their experiences in dealing with the organization or in what they have heard about it from others. Many organizations put the importance of a good reputation to the back of their minds while they attend to more hard-edged, day-to-day urgencies (Fombrun, 1996).

On the other hand, many organizations consider their greatest asset to be their good name or reputation. This is especially true in knowledge-based organizations such as professional services firms in the consulting, legal, medical, and financial sectors and in universities. They work actively to build their good reputation, to build the ‘bank of goodwill’ towards them (Sirdeshmukh et al., 2002).

Although reputation is an intangible concept, research universally shows that a good reputation demonstrably increases corporate worth and provides sustained competitive advantage. A business can achieve its objectives more easily if it has a good reputation among its stakeholders, especially key stakeholders such as its largest customers, opinion leaders in the business community, suppliers and current and potential employees (Dunn and Schweitzer, 2005).

1.1.1 Corporate reputation

Corporate reputation research and reputation literature has been increasingly capturing the attention of academicians in the fields of strategy, economics and management. Since the early recognition of reputation as a strategic asset which can generate future rents (Wilson, 1985), and the fact that corporate audiences routinely rely on the reputations of firms in making investment decisions, career decisions, and product choices (Dowling, 1986), research on this topic has been prosperous.

Corporate reputation is normally defined as the perceptions and feelings about an organization held by its multiple stakeholders (Fombrun, 1996). It represents the accumulated impression that stakeholders form of the firm, resulting from their interactions with, and any communications they receive about, that organization (Fombrun and Shanley, 1990). It defines stakeholders' expectations of an organization's future actions based upon that same prior experience and perception (Weigelt and Camerer, 1988). Reputation also shapes the future behavior of both customers and employees toward the firm (Brown and Dacin, 1997). Consequently, a reputation for being trustworthy can reduce transaction costs (Dunn and Schweitzer, 2005), create greater loyalty among customers (Sirdeshmukh, Singh, and Sabol, 2002) and result in greater commitment among employees (Dirks and Ferrin, 2002).

Reputation as perceived by the customers of a service business is heavily influenced by the experiences they have with the organization and particularly by the interactions they have with its employees (Lloyd, 1990). In a sense, the employees of the service are the face of the company and the employees' perception of the firm can be instrumental in

defining the view the customer is given (Kennedy, 1977). For example, if the service business is seen internally as authoritarian, this will influence the way customer-facing employees deal with customers, who will also come to see the organization in the same way. Employee and customer views of reputation are consequently seen as interrelated (Gioia, Schultz, and Corley, 2000). Davis et al., (2010) define reputation gap as the difference between internal reputation, specifically how customer-facing employees perceive their company, and external reputation —specifically how customers perceive the company.

According to Eberl and Schwaider (2004), there are several benefits to be expected from a “good” reputation with different stakeholders: higher customer retention, thus increasing repurchases and higher product prices lead to higher income on one hand, while on the other, lower costs are to be realized via a decrease in capital costs and personnel costs via decreasing fluctuation. In sum, this would lead to higher profitability for the “well reputed” firm. But one has to acknowledge that although the cited authors agree in the fact that reputation is a source of competitive advantage on a more or less theoretical basis, there has been relatively weak empirical evidence on the consequences of a “good” reputation.

1.1.2 Financial Performance

According to Divenney et al., (2008) firm performance encompasses three specific areas of firm outcomes: (1) financial performance (profits, return on assets, return on investment, etc.); (2) market performance (sales, market share, etc.); and (3) shareholder return (total shareholder return, economic value added, etc.).

Academically, firm performance is the ultimate dependent variable of interest for those concerned with just about any area of management: accounting is concerned with measuring performance; marketing with customer satisfaction and market share; operations management with productivity and cost of operations, organizational behavior with employee satisfaction and structural efficiency; and finance with capital market response to all of the above. March and Sutton (1997) found that roughly 28% of articles

in the *Strategic Management Journal*, the *Academy of Management Journal* and the *Administrative Science Quarterly* included some measure of firm performance.

Performance is so common in organizational research that it is rarely explicitly considered or justified; instead it is treated as a seemingly unquestionable assumption (Devinney et al., 2005). The multidimensionality of performance covers the many ways in which organizations can be successful; the domain of which is arguably as large as the many ways in which organizations operate and interact with their environment.

1.1.3 Corporate Reputation and Financial Performance

One of the most studied areas of corporate reputation is the reputation-performance relationship, particularly on the influence of corporate reputation on financial performance (e.g. Roberts and Dowling, 2002; Carmeli and Tisher, 2005; Srivastava et al., 1997; Deephouse, 1997; Fombrun and Shanley, 1990). While the results of these studies had shown a positive influence of corporate reputation on financial performance, doubts about the validity of these results and of the underlying theoretical framework have been raised (Fryxell and Wang, 1994; Sabate and Puente, 2003).

Building upon the resource based view of the firm and in the stakeholder theory, Aqueveque and Ravasi (2006) proposed a micro-foundational explanation for the reputation-performance relationship. This explanation argues that corporate reputation is a strategic asset because it generates trustworthiness from the part of stakeholders, and therefore influences positively corporate business performance.

One convincing link between reputation and performance is that sudden damage to reputation can adversely affect performance (Shrivastava and Mitroff, 1987). For example, the BSE (Bovine Spongiform Encephalopathy or 'mad cow disease') crisis that began in the 1980s impacted beef sales in countries affected by the disease and even in those that were not (Smith, Young, and Gibson, 1999). The collapse of Arthur Andersen was caused by a loss of reputation following allegations surrounding its involvement in the Enron scandal. Such examples, while headline grabbing, do not represent the norm in

reputation management, which is concerned with the gradual improvement of this key intangible asset (Fombrun, Gardberg, and Sever, 2000) but where, there is currently less compelling evidence of a causal link between reputation and financial performance.

1.1.4 Listed Companies at the Nairobi Stock Exchange

The Nairobi Stock Exchange (NSE) has a long history that can be traced to the 1920's when it started trading in shares while Kenya was still a British colony (IFC/CBK, 1984). While share trading was initially conducted in an informal market, there was a growing desire to have a formal market that would facilitate access to long-term capital by private enterprises and also allow commencement of floating of local registered Government loans. The NSE was constituted in 1954 as a voluntary association of stockbrokers registered under the Societies Act (NSE, 1997a). The newly established stock exchange was charged with the responsibility of developing the stock market and regulating trading activities.

Trading is done through the Electronic Trading System (ETS) which was commissioned in 2006. A Wide Area Network (WAN) platform was implemented in 2007 and this eradicated the need for brokers to send their staff (dealers) to the trading floor to conduct business. Trading is now mainly conducted from the brokers' offices through the WAN. However, brokers under certain circumstances can still conduct trading from the floor of the NSE (Wikipedia).

NSE is categorized into three market segments: Main Investment Market Segment (MIMS); Alternative Investment Market Segment (AIMS); and Fixed Income Market Segment (FIMS). The MIMS is the main quotation market. Companies listed under this segment are further categorized in four sectors that describe the nature of their business, namely: agricultural; industrial and allied; finance and investment; and commercial and services. The AIMS: provides an alternative method of raising capital to small, medium sized and young companies that find it difficult to meet the more stringent listing requirements of the MIMS; is geared towards responding to the changing needs of issuers; facilitates the liquidity of companies with a large shareholder base through

'introduction', that is, listing of existing shares for marketability and not for raising capital; and offers investment opportunities to institutional investors and individuals who want to diversify their portfolios and to have access to sectors of the economy that are experiencing growth. The FISMS, on the other hand, provides an independent market for fixed income securities such as treasury bonds, corporate bonds, preference shares and debenture stocks, as well as short-term financial instruments such as treasury bills and commercial papers (NSE Handbook, 2009).

1.2 Statement of the Problem

Good corporate reputations have strategic value for the firms that possess them (Rumelt, 1987; Weigelt and Camerer, 1988). According to a resource-based view, firms with assets that are valuable and rare possess a competitive advantage and may expect to earn superior returns. Those whose assets are also difficult to imitate may achieve sustained superior financial performance (Barney, 1991; Grant, 1991). Within this line of reasoning, intangible assets—such as good reputations—are critical not only because of their potential for value creation, but also because their intangible character makes replication by competing firms considerably more difficult. Not surprisingly, several studies confirm the expected benefits associated with good reputations (Roberts and Dawling, 2002; Davis et al., 2010).

The PriceWaterhouseCoopers has been carrying out surveys on CEO's Most Respected Companies in East Africa since 1999. The winners of this fete have been Safaricom (2009, 2008, and 2007), Kenya Airways (2006, 2005) and East African Breweries Limited in 2004. These companies also continue to showcase their financial soundness as they have been profitable over the years. No study has been undertaken to date to establish the link between these companies' reputation and their financial performance in Kenya. A search for any empirical study on reputation in Kenya also yielded no results. This is therefore a first attempt in Kenya to discern this phenomenon. A study on Kenya is necessary because the business environment in Kenya is quite different from those of the developed nations where studies on reputation have been carried out before.

The reputations of companies certainly correlate with their financial performance in the eyes of business people but it is more likely that financial performance causes such views, rather than vice versa (Davis et al., 2010). There is therefore need in alternative method to assess the linkages between corporate reputation and financial performance; one that focuses on interactions in the marketplace. This study seeks to explore these linkages using the companies listed on the NSE by examining the interaction of customer and employee views of reputation, and thus help to clarify how reputation may be used as a strategic tool. The study aims to build upon earlier thinking that the differences between these two perceptions explain how reputation influences performance. it is important to study reputation companies invest a lot to protect their reputations and it would be important to establish whether these investments pay off by way of having a positive impact on their bottom-line.

1.3 Objective of the Study

The objective of this study was to establish the relationship between company's corporate reputation and financial performance.

1.4 Importance of the Study

This study will be important to management of various organisations as concerns the important role that reputation can play on company performance. The results of the study will show whether performance of an organisation is influenced by its reputation and whether reputation gap has any significant influence on performance.

The study will also be important to researchers and academicians in general as it will add on to the growing body knowledge of corporate reputation. Thus, the study will form a basis upon which other studies on reputation in Kenya will be carried out.

CHAPTER TWO: LITERATURE REVIEW

2.1 Factors Enhancing Good Corporate Reputation

Reputation is a core (intangible) asset of the firm and creates barriers to competitive threats. Established reputations impede competitive mobility and produce returns to firms because they are difficult to imitate. A strong corporate reputation suggests that the products and services being offered by the firm are of higher quality (Carmeli and Tishler, 2005) and that the firm is responsible and will treat its customers well.

Moreover, intangible assets are very important for achieving a competitive advantage (Ambrosini and Bowman, 2001) because they are valuable, rare, difficult or costly to imitate, substitute and transfer (Roberts and Dowling, 2002). In general, it is possible to argue that the intangible nature of reputation, its rareness and social complexity, makes it difficult to trade and imitate, and as a result reputation can contribute significantly to performance differences among organizations (Barney, 1991, Peteraf, 1993).

Organizational market value has been moving from tangible to intangible assets. According to a study by Cap Gemini Ernst & Young (2003), between 80-85 percent of the market value of the S&P 500 was comprised of intangible assets versus only 15 percent from tangible assets. It is widely accepted in financial management that corporate reputation is an intangible asset (Ferguson et al., 2000; Aqueveque and Ravasi, 2006). Consistent with this perspective, reputation is a socially complex intangible resource that is valuable and non-transferable, and in which history plays a substantial role in its creation (Mahon, 2002). As such, it has proven to lead to persistent performance differences (Carmeli & Tishler, 2005; Roberts & Dowling, 2002). This view of corporate reputation suggests that reputation is a result of interactions and experiences of firm and organizational stakeholders over time.

Several authors have argued that good corporate reputations have strategic value for the firms that possess them (Roberts and Dowling, 2002; Dowling, 2004; Aqueveque, 2005). Freeman (1984) suggests that stakeholders collect information about how a company behaves and these "collections" help them determine what a company stands for. Wartick

(1992) concludes from his empirical research that even when confronted with negative information, it is difficult to change the perceptions of stakeholders.

All organizations have two basic responsibilities: economic responsibility and legal responsibility (Schreiber, 2008). Economic responsibility is the basic need of all organizations. For profit companies must make a profit and not-for-profit organizations must secure adequate financial support. Regarding legal responsibility, all organizations are expected to operate within the applicable country, state and local laws. Companies seeking to establish better reputations typically see two other responsibilities: ethical and social. Ethical responsibility refers to doing the right thing and avoiding harm while social responsibility has to do with being a positive contributor to society and the community (Schreiber, 2008).

There is evidence to suggest that, all other things being relatively equal, a company's level of social responsibility can actually attract customers. Schreiber (2008) report that in a national survey by Smith and Alcorn (1991), it was found that 45.6 percent of the respondents indicated that they were likely to switch brands to support a manufacturer who donates to charitable causes. For example, when a marketing campaign linked American Express credit card usage to the centennial restoration of the Statue of Liberty, card usage increased 25 percent over a three-month period as stated by one marketing and design consultant (Neuborne, 1991 in Schreiber, 2008). The Edelman Trust Barometer has found similar results. The age of the manager and the industry segment may affect the view of the importance of social responsibility. Younger managers tended to rate the market share effects as stronger than did older managers, as did managers in the service industry when compared to managers in the manufacturing/construction group (Owen and Sherer, 1993 in in Schreiber, 2008).

In an increasingly competitive and changing marketplace CSR can become a competitive advantage (Karna, Hansen and Juslin, 2003). Specifically, consumers' perceptions of a firm's corporate social responsibility have been shown to influence their attitudes toward

a company (Brown and Dacin, 1997), particularly when committing to a purchase (Sen and Bhattacharya, 2001).

The best corporate reputations are built by helping stakeholders find ways to use the corporate brand in their own lives. This suggests that the best corporate social responsibility programs are those that integrate the company's business and reputation objectives with its social responsibility programs (Hatch and Schultz, 2001). An excellent example of such a program is "Johnson & Johnson's Campaign for Nursing's Future", a multi-year, \$50-million national campaign designed to enhance the image of the nursing profession, recruit new nurses and nurse faculty, and help retain nurses currently in the profession (J&J, 2007). Nurses are, of course, a key stakeholder for J&J and the company's stated responsibility to nurses is contained in the first paragraph of the company's famous Credo.

Globalization of markets is pressuring companies to develop codes as public statements of core principles that are universally applicable (Carasco and Singh, 2003). de Quevedo-Puente, et al (2007) suggest that we move toward a concept of Corporate Social Performance (CSP), which merges the firm's responsibility for financial performance with its social responsibility to dialog with and meet the needs of multiple stakeholders. By using CSP, the authors suggest that stakeholders move from looking only at the firm's philanthropic activities to analyzing the firm's behavior in relationship with clients, suppliers, shareholders, employees, managers, the community, and the environment (de Quevedo-Puente, et. al, 2007). This definition of CSP moves the responsibility of the firm from being what Friedman (1970) referred to as a "mere agent of shareholders" to being a guarantor of stakeholder satisfaction (Wood and Jones, 1995). Corporate performance, then, is related to reputation and includes the distribution of value to all stakeholders (Clarkson, 1995).

2.2 Measuring Corporate Reputation

How stakeholders perceive an organization's culture has been found to influence reputation (Kowalczyk and Pawlish, 2002). Reputation must be taken within the context

of the industry or competitive group to which the organization belongs. In this regard, rankings have been found to have influence on stakeholder perceptions of a company's relative value and reputation (Fombrun & Van Riel, 2004; Schultz, et.al, 2006). Many organizations seek high rankings in respected publications.

The most famous measure of reputation is the Fortune magazine "Most Admired American Companies" survey conducted yearly. The survey is conducted on the ten companies with the largest revenues within each industry group (SIC code). Questionnaires are sent to executives, directors and financial analysts within the industry segment so that there is a level of familiarity with the companies in question. Eight attributes are analyzed: financial soundness, wise use of corporate assets, value as a long term investment, social and environmental responsibility, people management, quality of management, product and service quality, and innovation. These attributes are scored by respondents on a 1-10 scale with 10 being the highest.

However, doubts about the validity of the Fortune rankings in particular have been raised (Fryxell and Wang, 1994; Sabate and Puente, 2003), for several reasons. First, since the early development of the Fortune study, the index was not intended for scientific research (Deephouse, 2000). Second, the survey is limited to certain constituencies and thus does not take into consideration other stakeholders' opinions (Fombrun, 1996; Fryxell and Wang, 1994). Finally, evidence of financial bias of the valuations published in Fortune (Fryxell and Wang, 1994) has shed shadows over the results of previous studies, suggesting the possibility of artificial relationships between corporate reputation or corporate social responsibility measures and financial performance

Davies et.al. (2003) have developed the Corporate Personality Scale which companies can use to determine how their organization is perceived on certain personality traits such as "warmth", "emotion", and others. This scale is used to determine how the organization is perceived by stakeholders. The results are used to make changes to better match stakeholder needs.

The Reputation Institute uses a measure called RepTrak, which has been developed through factor analysis with respondents among the general public in about 25 countries. The instrument has found seven drivers of reputation (products and services, innovation, workplace, citizenship, governance, leadership, and financial performance). There also are 23 attributes of reputation within these drivers. In addition to the overall RepTrak, the Reputation Institute uses a more frequent “Pulse” that examines emotion, feelings and trust toward companies. The Reputation Institute survey is published yearly in Forbes.com. Doubts about the RepTrak survey have focused on the fact that it was developed with a focus on the general public. There are two problems with this development: 1) the public may not have familiarity with an organization but still may rate the organization; and 2) for many industrial companies, there are many other stakeholders far more important than the general public.

Harris Interactive uses a ‘Reputation Quotient’ (RQ), “an assessment tool that captures perceptions of corporate reputations across industries, among multiple audiences, and is adaptable to countries outside the United States”, which uses six similar dimensions of reputation: products and services, financial performance, workplace environment, social responsibility, vision and leadership, and emotional appeal (Harris Interactive, 2006). The Reputation Institute uses the “RepTrak” model that suggests that there are seven dimensions or drivers of reputation: products and services, innovation, leadership, workplace environment, citizenship, governance, and financial performance. The Harris Interactive survey is published yearly in the Wall Street Journal. Questions about the validity of the RQ survey are similar to those for RepTrak, since both were developed similarly and have common origins with Professor Charles Fombrun.

Schreiber (2008) has developed a Reputation “Pillars” approach to both managing and measuring reputation. This approach looks at the various pillars of reputation, in a similar manner to the Ogilvy Mather approach to brand management. Among the “pillars” are “differentiation, relevance, esteem, expectations, knowledge and experience”. Companies would then measure how they are perceived by stakeholders on each of these pillars and then assess and close the gaps between current and desired perceptions. Similarly,

Schultz, et. al (2004) suggest that companies conduct a gap analysis between their values, perceptions and culture. The values-perception gap would show whether there are differences between the desired attributes and perceived attributes of the company; the gap between culture and perception would show whether the organization acted similar to the way it communicates; and the gap between culture and values would illustrate whether employees believed that the company “walked the talk”.

2.3 Financial Performance

Financial performance is one of the most important constructs in management research and without a doubt the singularly most important measure of the success of a commercial enterprise. Organizational performance also means many things to many different stakeholders and the extent of the emphasis on these factors is contingent on the environment in which firms operate. However, although it is not uncommon for CEOs to put emphasis on other factors—such as customer and employee satisfaction—the ultimate litmus test of an organization’s viability and the sustainability of the tenure of the top management team is its ability to perform against its competition. This requires that firms know not only how their company stands on a host of performance dimensions but that it can roughly benchmark itself against a correct set of peers (Devinney et al., 2005).

Academically, organizational performance is the ultimate dependent variable of interest for those concerned with just about any area of management: accounting is concerned with measuring performance; marketing with customer satisfaction and market share; operations management with productivity and cost of operations, organizational behavior with employee satisfaction and structural efficiency; and finance with capital market response to all of the above. March and Sutton (1997) found that roughly 28% of articles in the *Strategic Management Journal*, the *Academy of Management Journal* and the *Administrative Science Quarterly* included some measure of organizational performance.

Performance is so common in organizational research that it is rarely explicitly considered or justified; instead it is treated as a seemingly unquestionable assumption (March & Sutton 1997). The multidimensionality of performance covers the many ways

in which organizations can be successful; the domain of which is arguably as large as the many ways in which organizations operate and interact with their environment.

2.4 Measures of Financial Performance

Organizational performance is one of the most important constructs in management research and without a doubt the singularly most important measure of the success of a commercial enterprise. Organizational performance also means many things to many different stakeholders and the extent of the emphasis on these factors is contingent on the environment in which firms operate. However, although it is not uncommon for CEOs to put emphasis on other factors—such as customer and employee satisfaction—the ultimate litmus test of an organization's viability and the sustainability of the tenure of the top management team is its ability to perform against its competition. This requires that firms know not only how their company stands on a host of performance dimensions but that it can roughly benchmark itself against a correct set of peers (Sutton, 1997).

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Performance is so common in organizational research that it is rarely explicitly considered or justified; instead it is treated as a seemingly unquestionable assumption (March & Sutton 1997). The multidimensionality of performance covers the many ways in which organizations can be successful; the domain of which is arguably as large as the many ways in which organizations operate and interact with their environment.

Year-on-year percentage sales growth will be the choice of performance measure as the study concerns the prediction of whether customers would buy more or less into the future. The measure is also comparable and relevant across the sample of businesses and is widely used as a dependent measure in the strategy literature (Mishina, Pollock, and Porac, 2004 and Peng, 2004).

2.5 Corporate Reputation and Financial Performance

It is important that the communications practitioner be able to show that reputation has a financial impact on the company since there is an every increasing demand for proof of the return-on-investment (ROI) of communications programs.

Historical data compiled by Fombrun and Van Riel (2004) found that companies with good reputation outperformed companies with poor reputations on every financial measure over a five-year period. Davies, et. al, (2004) suggests that reputation contributes between 3-7.5 percent of revenues yearly, and that reputation should be considered an investment toward increased revenues rather than a cost to the firm. Davis notes as support for this calculation that Exxon lost 5 percent of its revenues the year after the Exxon Valdez environmental disaster. Similar evidence of the relationship between reputation, financial performance and market value has been found by others (Roberts and Dowling, 2002; Carmeli and Tisher, 2005).

Several other studies have confirmed the link between reputation and revenues. Graham and Bansal (2007) found in their research on the airline industry that for each one-point increase in airline reputation, consumers were willing to pay \$18 more for a plane ticket. Mark Maybank, Executive Vice President of Canaccord Capital Corporation in Canada (2003) noted that when his firm maintained a reputation above the “line of best fit” of the reputations of competitive investment banks, it gained market share (measured in assets under management). Bragdon and Marlin (1972) conducted a study of companies within the pulp and paper industry that used five different measures of financial performance. They concluded that the companies that had the best record on pollution control and the environment were also the most profitable. The results of several studies also support a

positive relationship between corporate social responsibility and firm financial performance (McGuire et al., 1988; Solomon & Hansen, 1985)

Reputation has particular value in Initial Public Offers, mergers, acquisitions and partnerships (Gu and Lev, 2001; MacGregor, et. al, 2000). The intangible asset of reputation is valued-- often implicitly, sometimes explicitly—in financial markets by analysts, in stock prices, in ratings by credit agencies and for private lender programs. Mechanisms for raising capital based on intangibles already exist, including securitization, lending, licensing, and outright sale. Brown (1998) mentions that poor reputation signals to investors that disaster lurks, and that when it strikes, those companies will not have the necessary public support they need to weather the storm. Accordingly, Fombrun (1996) is of the opinion that companies with higher stocks of reputational capital tend to be assigned better ratings, making corporate reputation an important signal for institutional and individual investors alike. Srivastava et al. (1997) find evidence that current or potential shareholders perceive a company with a solid reputation to be less risky than companies with equivalent financial performance, but whose reputation is less well established.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was a relational study of listed companies on the Nairobi Stock Exchange market. In this market are the companies that have made it as the Most Respected Companies in East Africa over the past five years. A relational design was chosen because the study aimed to explain whether there was a relationship among the various variables of interest.

3.2 Population

The study population was the employees as well as the customers of the firms listed on the Nairobi Stock Exchange. Thus, the target firms were the 56 firms listed on the NSE. The companies were divided into their respective categories as those in which they were listed. Then, a random sample of 20% in each of the remaining categories was selected to form the sample companies. Thus, the total number of companies was 14.

In a similar study by Davis et al., (2010) on service organisations, a sample size of 2575 customers and 1732 employees had been selected out of 56 business units (branches or regional offices). If the same procedure of sampling is followed, the study should have had a sample size of 643 ($14 \times 56 / 2575$) customers and 433 ($14 \times 1732 / 56$). But given the resource constraints, the researcher could not cover all these respondents. Thus, sample size of 10 employees from each of the 14 companies and another 10 customers from each of them were selected using random sampling method. The respective companies were asked to identify their major customers who were approached to take part in the study. Thus, there were 140 employees and 140 customers in the final sample size.

3.3 Data Collection

Data was collected using questionnaires. These questionnaires were administered using drop and pick later method. Secondary data, especially the financial performance were obtained from the companies' financial statements. In this study, reputation was measured using the Corporate Character Scale which has been validated for both customers and employees (Davies et al., 2003), and was therefore appropriate for measuring any gaps between internal and external views of reputation. Each of the items

in the questionnaire was rated on a five-point Likert-type scale, labeled from strongly disagree to strongly agree.

3.4 Data Analysis

Reputation can be measured in a number of ways from single item scales (Goldberg and Hartwick, 1990) to more complex and potentially more useful measures (Dukerich, Golden, and Shortell, 2002). The researcher can create a scale specific to the context, or adopt a generic scale where dimensions have been derived from theory and measurement items developed from prior and independent empirical research. One advantage of a generic scale is that it is equally valid in all contexts and assesses common aspects of a construct.

Reputation gap was calculated by summing the scores for each scale item to create an overall measure for both customers and employees for each company and then subtracting the total average employee score from the total average customer score. Scores for the 'ruthlessness' items were reverse scored to reflect the negative valence of this dimension. The scale was used in effect to provide an index of reputation from the employees and customers of each organization.

Year-on-year percentage sales growth and return on assets were used. Two control variables were considered. As smaller firms may have greater potential to grow, the study included a measure of firm size. The study used asset values. This measure is relevant to all businesses in the sample. The logarithm of the data was taken to eliminate the possibility of very large or small numbers overly influencing the results. Secondly, as younger companies might also have more potential to grow and to have less established reputations, the study included the log of the date the business was established to control for age of the firm.

Descriptive statistics such as mean scores and standard deviations were used to analyze data using the SPSS. Further, correlation analyses were used to establish the relationship between the independent variable and firm performance as measured by sales growth and

return on assets. The results were presented in tables. The following model was used in the analysis:

$$\text{Performance} = a + b_1 (\text{Reputation}) + b_2 (\text{Age}) + c$$

Where a, b and c are constants

Performance is measured as percentage sales growth and return on assets

Reputation is measured as the mean scores from Corporate Character Scale

Age is the age of the firm measured by number of years since the date of establishment

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

The study sought to determine the relationship between corporate reputation and firm performance with a specific focus on the firms listed in the Nairobi Stock Exchange. This chapter presents the findings of data analysis in tables and charts where appropriate. The study had targeted 140 customers and 140 employees from 14 companies but only 10 companies that agreed to take part in the study and were therefore used for the study. This indicates that the response rate was 71.4%. The total number of questionnaires used in the analysis was 200.

4.2 Demographic Information

The companies that agreed to take part in the study were Kenya Commercial Bank, Barclays Bank of Kenya, Equity Bank Limited, Cooperative Bank of Kenya, National Bank of Kenya, Diamond Trust Bank, NIC Bank, Kenya Airways, Safaricom Limited, and East African Breweries Limited.

Table 1: Respondents' gender

	Frequency	Percent
Male	150	75%
Female	50	25%
Total	200	100%

75% of the respondents were male while 25% were female. These results are shown in Table 1.

Table 2: Category of respondents

	Frequency	Percent
Employees	100	50%
Customers	100	50%
Total	200	100%

50% of the respondents were employees while the remaining 50% were customers. These results are summarized and presented in Table 2.

4.3 Corporate Reputation and Financial Performance

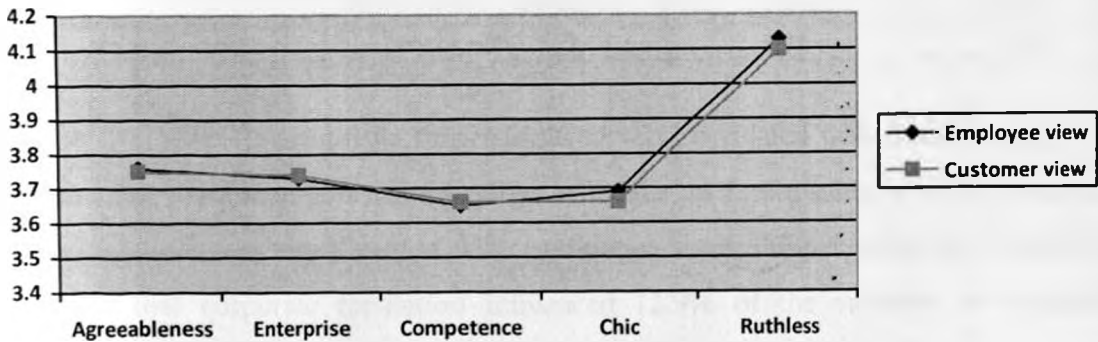
Table 3 shows results of the perspectives of employees as well as customers on the various dimensions of corporate reputation. These are presented in terms of mean scores. The reputation gaps on each of the components of reputation are then presented. As shown, the differences between employees' view and customers' view on corporate reputation were not large.

Table 3: Corporate reputation

	Agreeableness	Enterprise	Competence	Chic	Ruthless
Employee view	3.76	3.73	3.65	3.69	4.13
Customer view	3.75	3.74	3.66	3.66	4.10
Reputation gap	0.01	-0.01	-0.01	0.03	0.03

As shown in Table 3, there was a positive reputation gap of 0.01 for agreeableness, -0.01 for enterprise, -0.01 for competence, 0.03 for chic and 0.03 for ruthless.

Figure 1: Corporate reputation



The results on the corporate reputation in Table 3 are also presented in Figure 1. As shown, the X axis shows the corporate reputation dimensions while the Y axis shows the mean scores on each of the dimensions as espoused by the employees and the customers.

4.3.1 Corporate Reputation and Sales Growth

The Pearson correlation analysis was used to establish the relationship between corporate reputation and performance as measured by sales growth was performed using three models. In model 1, the log of date of establishment and the reputation gap as the independent variables and sales growth as the dependent variable. These results are shown in Table 4.

Table 4: Influence of reputation on future sales

Variables	Measure	Model 1	Model 2	Model 3
Log date of establishment	r	-.350	-.081	-.081
	p-value	.374	.869	.869
	Std. error	5.968	7.641	7.641
Reputation gap	r	.026	.384	-.096
	p-value	.946	.501	.817
	Std. error	.505	.735	.541
Reputation: employee view	r		-.503	Excluded
	p-value		.390	
	Std. error		.708	
Reputation: customer view	r			-.464
	p-value			.390
	Std. error			.708
Constant	α	18.918	7.075	7.075
	Error term	19.652	23.609	23.609
R^2		12.9%	23.8%	23.8%
F		.517	.624	.624

In model 1 (Table 4), age of the firm was negatively correlated with future sales ($r = -.350$) and that reputation gap had a positive influence on future sales ($r = .026$). None of these correlations was significant at 95% confidence level. Further, under this model, it was noted that corporate reputation influenced 12.9% of the variance in company performance ($r^2 = 12.9\%$).

In model 2 (Table 4), the log date of establishment, reputation gap and reputation as viewed by employees made up the independent variables and sales growth was the dependent variable. As shown, the age of the firm had a negative correlation with future sales ($r = -.081$) while reputation gap had a positive influence on future sales ($r = .384$). It was also noted that reputation as viewed by employees had a negative influence on future

sales ($r = -.503$). None of these correlations under model 2 was significant at 95% confidence level. The model shows that 23.8% of the variance in future sales was attributed to corporate reputation ($r^2 = 23.8\%$).

In model 3 (Table 4), reputation as viewed by customers was added on to the independent variables and future sales remained the dependent variable. As shown, there was a negative correlation between age of the firm and future sales ($r = -.081$). Reputation gap also had a negative relationship with future sales ($r = -.096$). Due to reaching the tolerance limits, the SPSS removed reputation as viewed by employees from the variable list thus its correlations were not shown. It was noted that reputation as viewed by customers had a negative correlation with future sales ($r = -.464$). None of these correlations was significant at 95% confidence level. It was also noted that 23.8% of the variance in future sales was attributed to corporate reputation in this model ($r^2 = 23.8\%$).

4.3.2 Corporate Reputation and Return on Assets

The study also established the relationship between corporate reputation and performance as measured by return on assets. Three models were used and the results are shown in Table 5.

Table 5: Influence of corporate reputation on performance

Variables	Measure	Model 1	Model 2	Model 3
Log date of establishment	r	-.480	-.785	-.785
	p-value	.211	.119	.119
	Std. error	.737	.913	.913
Reputation gap	r	-.033	-.438	.105
	p-value	.927	.406	.782
	Std. error	.062	.088	.065
Reputation: employee view	r		.570	Excluded
	p-value		.295	
	Std. error		.085	
Reputation: customer view	r			.526
	p-value			.295
	Std. error			.085
Constant	α	3.373	5.125	5.125
	Error term	2.426	2.822	2.822
R ²		22.2%	36.2%	36.2%
F		.999	1.135	1.135

Model 1 in Table 5 results show that there was a negative correlation between age of the firm and return on assets ($r = -.480$). The same was the case of reputation gap and return on assets ($r = -.033$). None of these correlations was significant at 95% confidence level. The results also revealed that 22.2% of the variance in return on assets was as a result of corporate reputation ($r^2 = 23.8\%$).

Model 2 in Table 5 results show that age of the firm as well as reputation gap had a negative influence on return on assets ($r = -.785$ and $-.438$ respectively). Further, employee's view of reputation of the firm had positive influence on return on assets ($r = .570$). These correlations were however insignificant at 95% confidence level. It was noted that 36.2% of the variance in return on assets was attributed to corporate reputation ($r^2 = 23.8\%$).

In model 3 in Table 5, it was revealed that there was a negative correlation between age of the firm and return on assets ($r = -.785$). It was found that reputation gap had a positive influence on return on assets ($r = .105$). Employee view of company reputation under this model was excluded by the SPSS as the tolerance levels were reached. Customer view of reputation had a positive influence on return on assets ($r = .526$). None of these correlations was significant at 95% confidence level. It was noted that 36.2% of the variance in return on assets was attributed to corporate reputation under this model.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of research findings, conclusions made from the findings, recommendations and suggestions for further research.

5.1 Summary of Findings

Three models were used in order to test for the relationship between corporate reputation and future sales. In the first model, the study found that age of the firm was negatively correlated with future sales ($r = -.350$) and that reputation gap had a positive influence on future sales ($r = .026$). Corporate reputation influenced 12.9% of the variance in company performance ($r^2 = 12.9\%$).

In the second model, the age of the firm had a negative correlation with future sales ($r = -.081$) while reputation gap had a positive influence on future sales ($r = .384$). It was also noted that reputation as viewed by employees had a negative influence on future sales ($r = -.503$). The results revealed that 23.8% of the variance in future sales was attributed to corporate reputation ($r^2 = 23.8\%$).

In the third model, the study found that there was a negative correlation between age of the firm and future sales ($r = -.081$). Reputation gap also had a negative relationship with future sales ($r = -.096$). It was noted that reputation as viewed by customers had a negative correlation with future sales ($r = -.464$). It was also noted that 23.8% of the variance in future sales was attributed to corporate reputation under this model ($r^2 = 23.8\%$).

The analysis to test for the relationship between corporate reputation and performance as measured by return on assets was also performed using three models. In the first model, the study found that there was a negative correlation between age of the firm and return on assets ($r = -.480$). The same was the case of reputation gap and return on assets ($r = -.033$). The results also revealed that 22.2% of the variance in return on assets was as a result of corporate reputation ($r^2 = 23.8\%$).

In the second model, the study showed that age of the firm as well as reputation gap had a negative influence on return on assets ($r = -.785$ and $-.438$ respectively). Further, employee view of firm reputation had positive influence on return on assets ($r = .570$). It was noted that 36.2% of the variance in return on assets was attributed to corporate reputation ($r^2 = 23.8\%$).

In the third model, it was revealed that there was a negative correlation between age of the firm and return on assets ($r = -.785$). It was found that reputation gap had a positive influence on return on assets ($r = .105$). Customer view of reputation had a positive influence on return on assets ($r = .526$). It was noted that 36.2% of the variance in return on assets was attributed to corporate reputation under this model.

5.2 Conclusions

The study sought to establish the relationship between corporate reputation and organisational performance. Performance was measured on two fronts: sales growth and return on assets. As concerns the corporate reputation gap, the views of customers about the companies do not significantly differ from those of the employees. The differences are minimal. The study concludes that the corporate reputation gap for firms listed on the Nairobi Stock Exchange is low.

As the study revealed, corporate reputation influenced both future sales and return on assets but these relationships were insignificant. As regards the impact on future sales, corporate reputation gap generally has a positive influence on future sales. Employee view on corporate reputation has a negative influence on future sales and so is the customer view of corporate reputation. The study concludes that that future sales growth is positively related to the reputation gap. Thus, when employee perceptions of reputation exceed those of customers (a positive gap), ensuing company performance is much more favorable than when employee perceptions are similar to those of customers (future sales growth). Further, when employee perceptions fall below those of customers (a negative gap), ensuing company performance is far less favorable than when employee perceptions are similar to those of customers (future sales decline).

Reputation gap was found to generally have a positive correlation with return on assets. The study therefore concludes that when the employee perception of the firm reputation exceeds that of the customers (positive gap), there is much more favorable company performance and the converse is also true.

5.3 Recommendations

There are two major implications from these findings. First, it appears that employee perceptions have a significant influence on future sales. Hence, focusing entirely on projects designed to increase reputation among consumers, as marketing managers may do, can be shortsighted. Secondly, the previous emphasis on alignment between consumer and employee perceptions should be questioned.

Doubtless there are advantages in ensuring that customers are aware of the functional aspects of a business, that certain services are offered, and that any gaps in understanding are eliminated. The research suggests that the alignment of affective associations between employees and customers should be seen in a very different way. If, over time, employee perceptions can be consistently kept above those of customers, this and not the alignment of the two are optimal.

5.4 Suggestions for Further Research

Further work is needed on the threshold between small and large reputation gaps. Managers and researchers alike will want to know how different a customer's perception of the reality represented by employee views needs to be to trigger a contrast effect. A study of a large number of business units from within the same organization would be useful in exploring the exact form of this relationship.

The outcome measure of sales growth was chosen to be compatible with our theoretical base and to be equally relevant across all businesses. However the time frame was three years. It would be useful to undertake some longitudinal studies over a longer time period. For example, if a customer panel could be recruited, then the effect of a series of interactions could be assessed and the influence of a series of assimilations or contrasts

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APPENDICES

Appendix 1: Corporate Character Scale Questionnaire

Section A: Demographics

1. Name of company:
2. What is your gender? Male () Female ()

3. What is your designation?
 Employee ()
 Customer ()

4. How long have you been dealing with the company?
 Years

Section B: Corporate Reputation

These questions seek to elicit your views on how you perceive the company's reputation on various fronts. Kindly state whether you strongly disagree, disagree, is indifferent, agree or strongly agree that the company possesses these qualities/characters.

	Strongly disagree	Disagree	Indifferent	Agree	Strongly agree
Agreeableness					
Cheerful	1	2	3	4	5
Pleasant	1	2	3	4	5
Open	1	2	3	4	5
Straightforward	1	2	3	4	5
Concerned	1	2	3	4	5
Reassuring	1	2	3	4	5
Supportive	1	2	3	4	5
Agreeable	1	2	3	4	5
Honest	1	2	3	4	5
Sincere	1	2	3	4	5
Trustworthy	1	2	3	4	5
Socially responsible	1	2	3	4	5
Enterprise					
Cool	1	2	3	4	5
Trendy	1	2	3	4	5

Young	1	2	3	4	5
Imaginative	1	2	3	4	5
Up to date	1	2	3	4	5
Exciting	1	2	3	4	5
Innovative	1	2	3	4	5
Extravert	1	2	3	4	5
Daring	1	2	3	4	5
Competence					
Reliable	1	2	3	4	5
Secure	1	2	3	4	5
Hardworking	1	2	3	4	5
Ambitious	1	2	3	4	5
Achievement-oriented	1	2	3	4	5
Leading	1	2	3	4	5
Technical	1	2	3	4	5
Corporate	1	2	3	4	5
Chic					
Charming	1	2	3	4	5
Stylish	1	2	3	4	5
Elegant	1	2	3	4	5
Prestigious	1	2	3	4	5
Exclusive	1	2	3	4	5
Refined	1	2	3	4	5
Snobby	1	2	3	4	5
Elitist	1	2	3	4	5
Ruthlessness					
Arrogant	1	2	3	4	5
Aggressive	1	2	3	4	5
Selfish	1	2	3	4	5
Inward looking	1	2	3	4	5
Authoritarian	1	2	3	4	5
Controlling	1	2	3	4	5

End of Questionnaire

Thank you for your time and participation!

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