Managing corporate respectability

Concept, issues, and policy formulation

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Abstract

Purpose – With growing literature on corporate reputation, different perspectives are being reported on the concept of corporate reputation. These stem from different sets of issues to be managed, and various disciplinary competencies brought to bear on them. This paper presents a review of these efforts.

Design/methodology/approach – Additionally, a new methodological basis for understanding perceptions of corporate reputation is presented. This paper introduces social judgement theory as a potentially useful theoretical and methodological basis for understanding perceptions of corporate respectability.

Findings – Though it is generally recognized that subjectivity plays an important role in the assessment of reputation, that people rely on naïve theories of judgement to make such assessments, and that subjective or clinical judgements are generally not accurate, investigations of the process by which corporate respectability is assessed are not generally reported. However, a computerized procedure facilitates identification, measurement and reporting of judgemental sources of assessment of corporate respectability.

Research limitations/implications – This paper provides an account of an empirical study as an example of how the procedure described here can be used for both research and practical application in formulating corporate reputation policy.

Practical implications – The procedure described here can be used for both research and practical application in formulating corporate reputation policy. The approach presents an alternative approach to the assessment of corporate respectability.

Originality/value – The description of policies in terms of parameters of the judgement process provides an operational definition of the decision makers' cognitive sets about the domain of corporate respectability. This information would prove invaluable in developing and implementing a judgement-based decision support system for the benefit of managers of public relations, corporate communications, and corporate reputation.

Keywords Corporate image, Organizational behaviour, Business policy

Paper type Research paper

Introduction

The interest in economic effects of reputation on firms and products has been growing rapidly over the past decade (Balmer and Soenen, 1999; Bennett and Gabriel, 2001; Bromley, 1993, 2000, 2002; Fombrun, 1995; Fombrun and van Riel, 1997; Fombrun *et al.*, 2000; Green, 1992; Kay, 1993; Mercer, 1996; van Riel *et al.*, 1998; Whetten, 1997). In this paper we use the term respectability as directly related to reputation; that is, higher the reputation, higher the respectability, and vice-versa. Various scholars have studied different aspects of corporate image, reputation and respectability during the past few

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years (Milgrom and Roberts, 1982; Shapiro, 1982, 1983; Goldberg and Hartwick, 1990; Haas-Wilson, 1990; Gardberg and Fombrun, 2002). The consumer may judge the quality of a product or a service not only by its cost but also in terms of the reputation of the manufacturer or service provider. Quality may be defined in terms of consumer expectations being met. Consumers are generally willing to pay a premium for their expectations being met or exceeded. The implications in the market place can be critical. Manufacturers and service providers reputed for the quality of their wares may charge higher price, realize higher profit margins, and generally enjoy excellent health even with what may objectively be an equivalent or sometimes, though rarely, inferior product or service.

More and more corporations are recognizing a good overall reputation as a valuable asset (Boot *et al.*, 1993; Diamond, 1989; Maksimovic and Titman, 1991). In the bourses or stock markets, those corporations that enjoy superior reputation may enjoy easy access to more capital with less effort. In a free market economy, failure to maintain standards of consumer expectation can be disastrous, as demonstrated by the recent spate of corporate scandals. While favorable reputation can establish, protect and enhance competitive position, a tarnished reputation can set an enterprise onto a cycle of decline through reduced sales, lower profits or even losses, difficulties in accessing credit or materials or labor, lower morale, and so on, as seen in the recent examples of ABB, Arthur Andersen, Enron, General Electric, Merrill Lynch, Tyco, WorldCom, and many others. In certain industries the impact of reputation on survival of the enterprise may be immediate, as in the case of pharmaceuticals and food processing enterprises. A pharmaceutical company that gains reputation as one developing innovative products based on sound scientific approach may have no difficulty in enjoying considerable success with a me-too product. Reputation is of critical importance in the art industry as well, as illustrated by recent embarrassments suffered by both Sotheby's and Christie's (Chaffin, 2000). Many corporations, in the USA and elsewhere, are appointing increasing categories of reputation managers, who are drawn from highly differentiated professional disciplines, e.g. accounting, communications, decision sciences, finance, strategic management, etc. In the USA, many corporations have appointed managers to ensure that high standards of ethics are maintained. In Denmark, a highly respected corporation, Novo Nordisk, has a corporate vice president for stakeholder relations. In the UK, British Telecom maintains an entire unit working on its corporate reputation (Pruzan, 2001).

The concept and the perspectives on issues

Interest in the study of corporate reputation is not of recent origin. *Fortune* magazine has published its annual surveys of corporate respectability for nearly three decades. In recent years, however, trends associated with the evolving knowledge economy have heightened the value of a company's reputation and it's generally held sense of identity. The real value of a company often derives from its intangible assets. However, the value of its intangible assets cannot be made explicit in the normal market transactional sense. Unlike the fixed assets, intangible assets are both owned and not owned by the company. Sveiby (1997) describes three kinds of intangible assets: employee competence, which refers to the capacity of the employees to act in a wide variety of situations; internal structures, which refer to the organizational know-how; and external structures, which refer to the institutional relationships with external stakeholders and organizational image. Various stakeholders, including employees and investors, associate with a company based on its image. For instance, in an innovation-based high-technology industry, employees with specialized skills are attracted to companies where they can interact with other experts, from whom they can learn to improve on their own competence, and with whom they can collaborate. Personnel loyalty to the organization is derived from the attraction to the organization because of its image and reputation. Stakeholders external to the organization thus assign value to organizational image (Dhir and Harris, 2001).

Different perspectives on issues

Along with the growing literature, different perspectives are being reported on the concept of reputation. These perspectives stem from different sets of issues to be managed, and the disciplinary competencies brought to bear on them. In their effort to contribute to the management of reputation and the underlying issues, researchers and practitioners conceptualize corporate reputation variously depending on their respective disciplines. These include collective, communicative, decision-making, financial, contractual, and reflective perspectives described below:

- *Collective perspective*. The management of corporate reputation is often seen as having to do with building and maintaining a high level of corporate respectability among its stakeholders. Fombrun considers corporate reputation as a collective assessment of a company's past behavior and performance as indicators of the company's capacity to generate value to various stakeholders (Fombrun, 1995). The *Fortune* magazine's annual surveys are, in fact, based on large, heterogeneous pool of respondents. Some scholars take issue with this perspective on corporate reputation. For instance, Bromley (1993, 2000, 2002) stresses that reputations are socially shared impressions, based on "collectives," not on heterogeneous "collections" of people. He defines a collective as "a relatively homogenous group of people with a degree of common interest in a reputation entity … " Yet, Firth (1990) describes how the loss of reputation of one "collective", the audit firms, can effect the reputation of another "collective", the firms' clients.
- *Communicative perspective*. Some scholars define corporate reputation as corporate identity. The communicative perspective describes corporate reputation management in terms of building and maintaining a positive name of an organization, and generating positive feedback from stakeholders who can influence the organization's strategic and financial success (Nakra, 2000). This perspective is based on economic rationality. Pruzan (2001) also describes it as managerial or pragmatic perspective of corporate reputation. It sees the management of reputation as heavily influenced by growing expectations of employees, customers, investors, media, and other stakeholders. This perspective is the domain of public relations and corporate communication professionals, who have long managed corporate reputation. However, with the emergence of knowledge economy, corporate accountants, finance managers, strategic planners, and decision scientists, too, are taking interest in its management.
- *Decision-science perspective*. Some see reputation being built through sound decision-making that ensure efficient and optimal use of human, financial, and other resources. Towers (2002) suggests that decision science methodologies should be applied to the management of corporate reputation. Diamond (1989)

shows how a firm's reputation may influence its access to debt markets and choice of its investment projects. Gibbons and Murphy (1992), Hirshleifer and Thakor (1992), and Narayanan (1985), too, discuss how reputation may influence the managerial decision-making process. Boot *et al.* (1993) describe the efforts of mutual fund management firms to enhance the reputation of losing money market funds by restoring their losses through voluntary contributions. Many industries assess various kinds of risks, e.g. a chemical manufacturer may compute the mathematical probability of an accidental contamination of the environment. Based on such assessments, industries pay premiums for insurance, while managing the processes through which they operate to prevent the adverse events from occurring. Corporate reputation could be managed in similar fashion. To implement such an approach, the corporate decision makers would start with recognizing that its reputation is rooted in the processes that create its corporate culture, recruiting standards, human resources practices, pricing policies, operating norms, financial statements, quality control, service standards, and both internal and external communications. As Towers states:

> In time, insurers will reward reputation risk management procedures with lower premiums for liability and policies. The cost of inaction . . . is significant (Towers, 2002).

- *Financial perspective*. Fombrun and Shanley (1990) attempted to identify factors that evoke responses in the financial markets, institutional investors, and the media. They found that financial markets respond to information about profit, debt, and advertisement; institutional investors respond to information about risks and dividends; and the media respond to information about larger and more profitable corporations, corporations with philanthropic goals, corporate scandals, and activities that go against the public interest. Saxton (1998) points to various studies that demonstrate that corporations with better reputations have better financial performance, measured partly in terms of return to investors, economic value added, and price to earnings ratio. Vegrin and Qoronfleh (1998) found that future stock performance is directly related to corporate reputation. Fombrun and Abrahamson (1990) have described the nature of influence of financial markets, the media, government, education, training agencies, professional organizations, and trade unions have on corporations. They describe the considerable complexity of the networks connecting a great variety of organizations.
- *Contractual perspective*. The basis of Sobel's economic model of reputation is that reputation based on reliable behavior can substitute for a binding contract (Sobel, 1985). Considerations of reputation may explain the lack of legal requirement for a firm to pay preferred dividends. Maksimovic and Titman (1991) have analyzed the interaction between a firm's reputation for product quality and its financial structure. However, as stated by Brennan (1995):

  > . . . a difficulty with the reputational concept as applied to firms is that it is unclear precisely where the reputation resides if a firm is no more than a "nexus of contracts"; what is it about firms that make some "good types", and can this not be changed by a new management?

- *Reflective perspective*. Pruzan (2001) suggests that the concept of corporate reputation and its relationship to the success and credibility of an organization could be studied from two complementary perspectives: the pragmatic and the reflective. As mentioned earlier, the pragmatic perspective is based on economic rationality. Pruzan states that this perspective is focused on traditional concepts of corporate success, concerned primarily with "the qualities imputed to the corporation by its stakeholders" (Pruzan, 2001). Its goal is to enhance and protect corporate image. In contrast to the pragmatic perspective, the reflective perspective is existential or philosophical in nature. Unlike the pragmatic perspective, it uses "a broader repertoire of measures of corporate success and focuses on organizational identity rather than image" (Pruzan, 2001). It is more involved with inherent quality of the organization rather than its outward appearance, and in this respect, it is more reflective rather than communicative. Pruzan's perspectives on the concept of corporate reputation provide clues to why reputation management is no longer the domain solely of communications and public relations professionals. Increasingly, the concept of corporate reputation is becoming embedded with issues in social responsibility, corporate citizenship, and practice of leadership, etc. This trend is correlated with increasing demand being made by the society for value-based leadership by corporate executives that not only guides, controls, and coordinates the hierarchical functions of the organization, but inspires and nurtures the entire range of corporate stakeholders, including the employees, vendors, investors, communities, and others.

Accounting for corporate reputation

There is growing interest in accounting for corporate reputation (Swift, 2001; Riahi-Belkaoui and Pavlik, 1992; Woodward *et al.*, 1996). Even the nature of accountability is being examined. Accountability has long been regarded as "the requirement or duty to provide an account or justification for one's actions to whomsoever one is answerable" (Gray *et al.*, 1991; Roberts and Scapens, 1985; Tricker, 1983; Williams, 1987). However, the London-based Institute of Social and Ethical AccountAbility, defines accountability as follows: "To account for something is to explain and to justify the acts and omissions for which one is responsible to people with a legitimate interest" (ISEA, 1999). This definition gives considerable discretion to corporations to determine whom they perceive to be parties with legitimate interest. Pruzan (2001) observes:

> . . . supplementing the primarily "external" image orientation of the pragmatic perspective with the "internal" identity perspective of the reflective perspective can lead to improved corporate self-awareness, to an improved capability for reflecting on corporate identity, and to more realistic methods for measuring, evaluating, and reporting on the corporation's impact on its stakeholders and society as a whole – in other words, to an improved and more inclusive depiction of the corporation and its performance.

Bromley (2002) provides an overview of some of the issues and methods involved in assessing corporate reputation. The problem is that although corporate reputation is widely discussed and debated, an accepted theoretical basis for its assessment is lacking. It is generally recognized that subjectivity plays an important role in the assessment of reputation; that people rely on naive theories of judgment to make such assessments; and that subjective or clinical judgments are generally not accurate. Yet, investigations of the process by which corporate respectability is assessed are not generally reported. A variety of methods are reported in the literature, based on some of the variety of perspectives described above. Of these, two are relatively more prominent:

(1) the league tables; and
(2) the reputation quotients.

Additional methods are reported in the literature, such as the multiple-indicator multiple-cause (MIMIC) modeling approach (Wansbeek and Meijer, 2000), and its adaptation, the dynamic version (DYMIMIC) (Quagrainie *et al.*, 2003), which are beyond the scope of this paper.

League tables

League tables are generally based on surveys of large samples of respondents who rate a selection of corporations on various attributes deemed relevant to corporate success. The samples of respondents may be sub-divided into sub-samples to represent specific industries or business sectors. The *Fortune* magazine's annual studies of the developed world's most respected corporations are the best-known example of league tables. In these studies senior executives, outside directors, and financial analysts are asked to rate over 300 companies, in over 30 industrial sectors on eight attributes of reputation. The attributes are as follows:

(1) quality of management;
(2) quality of products or services;
(3) innovativeness;
(4) long-term investment value;
(5) financial soundness;
(6) ability to attract, develop, and keep talented people;
(7) community and environmental responsibility; and
(8) use of corporate assets.

Unfortunately, the reports do not define these eight attributes. They also provide no further details of samples or the procedures used to collect the data. Nevertheless, these annual reports presumably affect public opinion about the companies listed. A consistent finding from these surveys is that more than 80 percent of the respondents regard quality of management as the most important characteristic of a firm, followed by quality of products and services. The importance of the attributes varies from one industrial sector to another, and also changed over time, possibly because of changes in circumstances of the firms. For instance, mergers and acquisitions may shift firms from one sector to another, exposing them to different sets of stakeholders. Again, no information is provided regarding the actual weights assigned to the various attributes relative to each other. For detailed discussion of the limitations of the existing reputation surveys that yield league tables, see Bromley (2002) and Fombrun *et al.* (2000).

Reputation quotient

Fombrun *et al.* (2000) propose a multi-stakeholder measure of corporate reputation, the "reputation quotient SM" (RQ). The RQ-method is based on a standardized measurement instrument that tracks corporate reputation of corporations. While

Fortune studies tend to be biased to financial criteria (Fombrun and Shanley, 1990), the RQ studies rely on ratings by general public to overcome this bias. The RQ-method consists of two phases, the "nomination" phase and the "ratings" phase. In the initial nomination phase, rather than creating a pre-specified group of corporations, the RQ-method creates a pool based on nominations of the best and the worst from the general public. In the subsequent "rating" phase, only the most visible companies from those nominated, both best and worst, are drawn for assessment. A different representative sample of the public is invited to assess these companies on 20 attributes that make up the RQ-scale (Fombrun *et al.*, 2000). The fact of the matter is that RQ-method does not involve any mathematical computations, and the reputation quotient is not what a quotient usually is, that is, a ratio between two numbers. The original data are ratings, obtained on an ordinal scale, not on interval or ratio scale. As such they are not suitable for the development of ratios.

A new approach to the assessment of corporate reputation

In this paper, we offer an alternative, judgment-analytic approach to the assessment of corporate policy, through a narrative. Consider the case of a non-profit non-governmental social research organization interested in matters of socio-economic impact of business worldwide. Suppose that the leadership of this organization institutes a six-member committee charged to develop a policy for assessing corporate reputation. The committee meets, and discussion begins, which soon becomes a debate over importance of different considerations and approaches. Scholars have claimed that people rely on naive theories of judgment to make decisions, and have a sense of what it takes to make a sound judgment (Yzerbyt *et al.*, 1998). Nevertheless, psychologists have long stated that clinical judgments are not as accurate as actuarial determination (Meehl, 1954). According to Bromley (1993 p. 164):

> . . . information conveyed by reputation is useful if it combines several independent sources, attaches due emphasis (weight) to evidence, and incorporates important subjectivities that influence people's actions.

We simulated the case described above, recruiting six part-time graduate students, each enrolled in a strategic management capstone course during the last semester of their graduate studies in business. They were employed at the middle-management levels, with an average of about eight years of corporate experience. In preparation for this simulation, they reviewed Bromley (2002), Fombrun *et al.* (2000), and a set of *Fortune* magazine's annual reports on most admired companies. They were informed that the first author, who was the instructor for the course, was available as a consultant. At the start of the simulation, the committee considered the use of both, the league tables, and the RQ-method, but concluded that both fail to describe how the individuals assess corporate respectability. They called for the assistance of the consultant. Until recently subjective processes were difficult to analyze. Fortunately, new tools based on theories and concepts in applied psychology, policy sciences, computer oriented data handling and graphic displays, and multiple regression analyses have now made it possible to investigate the parameters of the judgment process. A vast literature exists on judgment and decision-making. For review of these, see Arkes and Hammond (1986), and Cooksey (1996). Intricacies and limitations of human judgment, obviously, have major implications for the assessment of corporate respectability. The consultant began with presenting to the committee the following brief review the process of human judgment.

The process of human judgment

Human judgment is a process through which an individual uses social information to make decisions. The social information is obtained from an individual's environment and is interpreted through the individual's cognitive image of the environment. The cognitive image provides a representation of the environment based on past experiences and training that essentially predisposes the person to respond to social information in predictable ways. An individual's policies or beliefs about the environment represent these patterns. Human judgments are based then on one's interpretation of available information. This leads to judgments considered as probability statements about one's environment and how one reacts to it. This condition leads to the human judgment process being inherently limited. It is fundamentally a covert process. It is seldom possible for an unaided individual to accurately describe his or her judgment process accurately. Ordinarily, the only means of actually explaining judgments are introspection and guessing at the reasons for the observed judgments. These explanations are generally incomplete and misleading. Subjective reporting is fallible. Judgments are thus inaccurately reported. Judgments are also generally observed to be inconsistent. Identical circumstances do not always lead to identical judgments. Observations of inconsistent judgment often set an observer in search for hidden motives or conclusions of incompetence on the part of the decision-maker. Psychological theory of human behavior, however, finds such assumption unnecessary. Judgment is inconsistent because its process is not a fully analytical and controlled. Inconsistency is, therefore, an inherent characteristic of judgment. While covertness, inaccuracy of reporting, and inconsistency may not completely describe the human judgment process, these characteristics make clear that decision aids would prove enormously useful in overcoming the limitations of human judgment. To find means to uncover the covert process of judgment, let us examine its parameters.

Parameters of human judgment

The consultant explained that if parameters of an individual's judgmental policy could be identified, then it would become possible to model the process of that individual's judgment, and develop aids to the assessment of corporate reputation. The judgment process may be explored by posing the following questions:

- What factors influence the individual's judgments? This is to identify the variables that influence the assessment of corporate respectability. These factors would usually have mutually exclusive characteristics or properties.
- What relative emphasis or weight does the individual put on each of the factors? One source of disagreement between participants arises from the fact that different weights are likely to be attached by different members to the factors.
- How does the individual integrate the information regarding each factor to arrive at an overall judgment? This could be described in terms of the mathematical relationship that models the dependence of the overall judgment on the factors considered. The relationship between each factor and the overall judgment may be linear or non-linear, and the contribution of each factor to the overall judgment

may be positive or negative. The nature of dependence of the overall judgment on each factor is referred to as that factor's function form.

- What is the consistency with which the individual is able to make judgments? An individual may make different judgments about the same situation on different occasions. At least two characteristics of the judgment task are known to affect consistency: task complexity and task uncertainty. Studies have shown that consistency is lower when the judgment task is complex, i.e. involving more factors, rather than less; and also lower when the task requires use of non-linear function forms rather than linear function forms (Cooksey, 1996; Hammond *et al.*, 1975; Hogarth, 1980, pp. 56-57). Even when a decision maker intends to use a specific judgment policy as defined by specific set of factors, relative weights and function forms, his or her judgments or assessments may deviate from those suggested by that policy. Errors may creep into the process of execution of judgment. In absence of explicit and immediate feedback on judgment, the decision-maker may be unaware of the degree to which the actual judgment or assessment deviates from that intended.

The concept of consistency is different from that of accuracy. A decision-maker can be accurate but inconsistent, consistent but inaccurate, both consistent and accurate, or neither. Consistency has to do with the reliability of the decision-maker in executing the intended judgmental policy, as defined by specific set of factors, relative weights and function forms. The lesser the deviation between the actual judgment and that intended, the greater is the consistency. Accuracy, however, has to do with the validity of the policy itself, i.e. whether the judgmental policy executed is indeed the one that was to be executed. Stated another way, whether the specific set of factors, relative weights and function forms are indeed the parameters of the policy intended for implementation by the decision-maker.

Choice of factors

The consultant proceeded with the determination of the factors that influence the committee's judgments regarding corporate reputation. Another round of discussion ensued among the committee members. Aware that they were participating in a simulation, they agreed that the eight factors used in *Fortune* surveys, namely, quality of management, quality of products or services, innovativeness, long-term investment value, financial soundness, ability to attract, develop, and keep talented people, community and environmental responsibility, use of corporate assets, were adequate for their committee's purpose. However, recall that *Fortune* magazine does not offer definitions of these factors. The consultant asked all six members to define each of these factors. Working together, the committee members developed a working definition for each of the eight factors, presented in the Appendix.

Obtaining the individual a priori judgmental policies

Each committee member was now asked by the consultant to indicate the relative emphasis he or she placed on each of the factors. To indicate this, the member was asked to distribute 100 points among the eight factors listed in such a way that the points assigned to each factor indicate the relative importance of that factor in the member's assessment of corporate respectability. Each committee member was also asked to indicate the functional relationship between corporate reputation and each factor. To do this, the consultant asked the each member to select out of a menu of graph displays shown in Figure 1, one that in his or her respective judgment, best represented the relationship between corporate reputation and each factor. Thus, with the relative weights for each factor described and their respective relationship with the assessment criterion indicated, the consultant obtained the a priori description of each committee member's policy regarding assessment of corporate respectability.

Design of profiles

The consultant now randomly generated 25 different hypothetical corporate profiles, each described in terms of the eight factors identified earlier. To generate these, random values were assigned to each factor on a Likert scale from 1 to 10, where 1 represented a very unfavorable level of evidence of the factor, and 10 represented a very favorable level of evidence, in the performance of the corporation in question. For example, the factor "Quality of products or services", 1 represented a very unfavorable level of evidence of quality, and 10 indicated a very favorable level of evidence. A sample profile is shown in Figure 2.

Testing for orthogonality

The consultant tested the profiles designed for orthogonality to minimize the effect of inter-correlation among the eight factors. The objective was to establish the absence of significance among correlations among all possible pairs of factor. The Pearson product-moment correlation coefficient was used to estimate the correlation coefficients among paired factors. The significance test was performed on the highest correlation coefficient observed, by computing the t-statistic as follows:

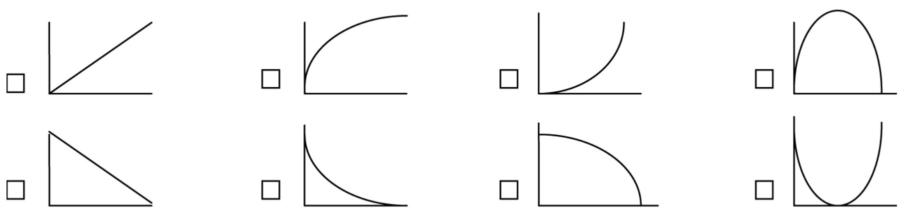

Figure 1.
Menu of graph displays for the selection of function forms

Corporate Profile 5

Quality of management	XXXX	4 on a scale from 1 to 10
Quality of products or services	XXXXXXXXX	9 on a scale from 1 to 10
Innovativeness	XXXXXXXXX	9 on a scale from 1 to 10
Long-term investment value	XXXXXXX	7 on a scale from 1 to 10
Financial soundness	XXXXX	5 on a scale from 1 to 10
Ability to attract, develop, and keep talented people	XXXXXXXX	8 on a scale from 1 to 10
Community and environmental responsibility	XXX	3 on a scale from 1 to 10
Use of corporate assets	XXXXXXXXX	9 on a scale from 1 to 10

Please rate this corporate profile for its respectability on a scale from 1 to 10, where 1 would indicate that your rating of respectability is extremely low economic value, and 10 would indicate that your rating of respectability is extremely high

Figure 2.
A sample profile of a hypothetical corporation

$$t = r_{ij} \bullet [\{(n-2)/(1-r_{ij}^2)\}^{0.5}]$$

where r_{ij} is the sample correlation coefficient (i.e. the Pearson product-moment coefficient) for variables i and j, and n is the number of observations. With the highest correlation coefficient thus found as being not significantly different from zero, it was established that that none of the correlation coefficients were significantly different from zero.

Rating the profiles

The consultant then asked each committee member to assess all 25 corporate profiles for corporate respectability. In effect, each member executed his or her policy for the assessment of corporate reputation. Each member was also given the opportunity to review the 25 profiles and make whatever revisions in the assessment ratings he or she deemed appropriate, until satisfied with the ratings.

Obtaining the individual executed policies

Next, the consultant extracted from these judgments the description of the policy executed or deployed by each committee member. This was accomplished through non-linear multiple regression analyses. These analyses were performed with the assessment ratings given to the different profiles by the committee members as dependent variable and the eight factors as the independent variables. These analyses yielded the parameters of each member's respective judgmental policies. The regression model consisted of first and second order terms for each factor. The weights, as measures of the emphasis given to the different factors, and the function forms for the different factors were derived from algebraic transformation of the regression model. For the mathematical details, see Cooksey (1996, pp. 178-80) or Hammond *et al.* (1975, pp. 271-312).

Cognitive control exercised by a participant with respect to the particular model obtained through non-linear multiple regression analysis is measured in terms of the multiple correlation coefficient, R (Hammond and Summers, 1972). Hammond *et al.* (1975) propose that to determine whether in a specific case the multiple correlation coefficient will provide a measure of cognitive consistency a test for lack of fit of the specific model obtained through multiple regression analysis should be performed (see Draper and Smith, 1981). If there is no evidence of lack of fit, then the multiple correlation coefficient, R, provides a measure of both consistency as well as control.

A sample of both relative weights and function-forms obtained from each committee members is shown in Figure 3. Together, they describe a committee member's policies. The a priori policy is reported in Section A, and those obtained from the analysis of the profiles ratings are reported in Section B.

Policy formulation

Described below are the insights gained in regard to policy formulation through measures of relative weights, function-forms, cognitive consistencies, mutual consensus among committee members, and "self-knowledge", or their understanding of their own policies. These are described below.

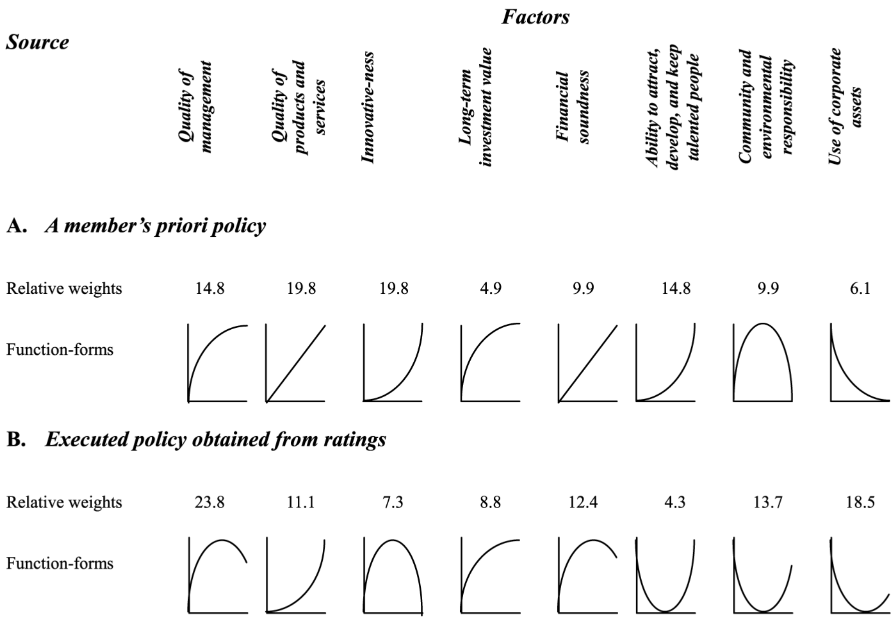

Figure 3.
An example of a member's policies for corporate reputation assessment

Relative weights and function forms

Taken together, the relative weights and the function forms allow insights into an individual's policy orientations. Pair-wise comparisons between an individual's a priori policy and executed policy reveal how that individual's actual judgments differ from his or her a priori expectations or assertions. For instance, an individual may anticipate giving more or less weight to specific factors than he or she actually does in making judgments. Further, as shown in Figure 3, this individual may use different function forms for the various factors from the function forms he or she expected to use, as asserted a priori, even when the corresponding relative weights are similar. Because the judgment process is covert, these differences are all too common and are expected. Decision-makers are generally inaccurate in describing the policies they actually use.

Consistency

The cognitive consistency of the simulated committee ranged from 0.88 to 0.96, with a mean of 0.926, and a standard deviation of 0.030. A high value for multiple correlation coefficient, near 1.0, for an individual would indicate that the person was relatively consistent in making judgments and that the regression model used to describe the person's judgments provided a good "fit" or description of those judgments. However, even slight inconsistencies can lead to perceived conflicts and disagreements where little conflict really exists, and can be a source of confusion in assessment of corporate reputation. Consider the following example: Let us assume for a moment that the models of executed policies obtained in this study were all linear, and were true representations of the committee members' actual policies. In this situation, even with identical policies, two participants with cognitive consistencies of 0.90 and 0.80 respectively, may perceive limited mutual agreement, with the correlation between the two being less than (0.90 × 0.80), or 0.72 (corresponding to, at most, 50 percent of the variation in the judgments of one being explained by the judgments of the other).

Mutual consensus

The consultant now computed the correlations between pairs of the a priori policies of the committee members. To do this, ratings were computed for each profile presented to the committee members, using each a priori policy, respectively. Correlations were then computed among sets of computed ratings, with members taken in pairs. For the simulated committee, the correlations obtained through paired a priori policies ranged from 0.22 to 0.88, with a mean of 0.53 and a standard deviation of 0.19. The same exercise was repeated for the executed policies, to yield the correlations between them as well, taken in pairs. In the case of executed policies, the use of computed ratings instead of the ratings actually assigned eliminates whatever effect the cognitive inconsistency might bring into the results, thus yielding a truer measure of the degree to which the policies were similar. For the simulated committee, the correlations obtained ranged from −0.18 to 0.79, with a mean of 0.41 and a standard deviation of 0.31. Note that the consensus among the a priori policies is greater than that among the executed policies. The lower standard deviation associated with the a priori policies further indicates that the committee was closer together in describing their policies than executing them. However, recall that the cognitive consistencies were high. One concludes that, as anticipated, self-reported policies are generally faulty.

"Self-knowledge"

Various studies have demonstrated that generally a priori policies differ from the executed policies. This is so because, unaided, judgment is generally exercised through a covert process. The consultant now computed the correlations between the a priori policy and the executed policy for each committee member. The correlations obtained ranged from 0.17 to 0.69, with a mean of 0.53 and a standard deviation of 0.43.

Recommendation from the committee

In this simulation, as in numerous others studies reported in the literature (Arkes and Hammond, 1986; Cooksey, 1996), members were unable to accurately describe their own judgment process pertaining to the assessment of corporate reputation. As mentioned above, this has to do with the covert nature of the judgment process. However, it is possible to make the executed judgmental policies explicit in terms of relative weights and function-forms deployed. Once made explicit, the decision-makers can modify their policies in a controlled manner by specifying changes in weights and/or function-forms as desired. For instance, the committee members could be asked to revise their respective a priori policies in view of the policies revealed through the analysis of their assessments of the corporate profiles, and indicate the policies that they now feel ought to be used for the assessment process.

The consultant asked the committee members to review their respective a priori policy, executed policy, and the policies of the other members of the committee, and to discuss what policy they would now recommend to the non-profit non-governmental social research organization that instituted them. After another round of discussion, the simulated committee specified the policy for the assessment of corporate reputation shown in Figure 4.

Source	Quality of management	Quality of products and services	Innovative-ness	Long-term investment value	Financial soundness	Ability to attract, develop, and keep talented people	Community and environmental responsibility	Use of corporate assets
Recommended policy								
Relative weights	20.1	18.0	7.7	11.5	11.2	5.4	15.7	10.4
Function-forms								

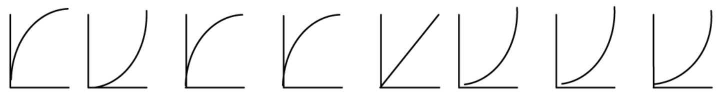

Figure 4.
The corporate reputation assessment policy recommended by the committee

Conclusion

In conclusion, the primary contribution of the approach explored in this report is that it presents an alternative approach to the assessment of corporate respectability. The description of policies in terms of parameters of the judgment process provides an operational definition of the decision makers' cognitive sets about the domain of corporate respectability. Investigation of the judgment's parameters enable the development of judgmental aids to assist the decision maker in the exercise of judgment in the following manner: the judgment process of the individual, though covert, internal and subjective, is clarified, externalized, and explained so that it can be examined and understood, and desired changes in the judgment policy motivated by change of insights, self-understanding, group discussions, and feedback about judgment policy, can be specified and executed consistently as desired. A decision-maker may therefore define "corporate respectability" as well as "assess" it as defined by another. To the extent that a chosen set of tradeoffs or weights are executed consistently, the policies would be implemented with improved effectiveness yielding better decisions. To the extent that a group of decision-makers agree on the policy to be specified for implementation, the decisions can be taken with a greater degree of confidence with regard to their relevancy.

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Appendix

The committee members were asked to provide their definition of factors influencing the assessment of corporate respectability. Samples of these definitions are presented below.

Quality of management

This factor refers to the degree to which the following qualities are present:

- Competency in strategic management.
- Overall ability to bring the whole company together. Good financial abilities together with the ability to mould and motivate staff and other stakeholders.
- Experienced and visionary management, with integrity, and ability to lead.
- Ability of the management to manage corporate resources while meeting corporate objectives and keeping ahead of competition.
- Corporation as part of a wider community.
- Experienced management, with proven personnel, committed to excellence and customer focus.

Quality of products and services

This factor refers to the degree to which the following qualities are accounted:

- Meeting customer's current or future needs.
- Cost effectiveness.
- Exceeding market expectations at reasonable cost.
- Performance of the products and services provided exceed alternatives available in the market.
- Product life and performance consistently above average.
- Continuous improvement, investment in research and development, aiming for market leadership.

- High repeat sales.
- Proactive approach to customer feedback.
- Without defects, competitive, after sales service, delivery on time.
- Value for money, long lasting, well designed and delivered, exceeding expectations.
- Environmentally, socio-economically, and health and safety-wise sound.
- Considers customer's interests.

Innovativeness

This factor refers to the degree to which the following qualities are present:

- Constancy in the development of new products looking towards the future.
- Re-engineering of existing products for new uses.
- Visionary.
- Ability to diversify, improve its products and services to continually provide added value to the market and maintain competitive advantage.
- Adapting to changing environment, customer needs, and development of the society.
- Uniqueness, efficiency, better than alternatives.
- Pushing the envelope of technological barriers.
- Anticipates long term needs of customers.
- Pronounced research and development function.
- Breaking new ground through unique and new qualities in products and services.
- Willingness to take risks to change current trends.

Long-term investment value

This factor refers to the degree to which the following qualities are present:

- Value of an investment in terms of its long-term profitability.
- Steady and reliable growth.
- Ability to maximize the use of assets to produce profit.
- Increase in overall value.
- Provide long term growth in shareholder value.
- Benefit to shareholders.
- Foresight in social, environmental, technological trends.

Financial soundness

This factor refers to the degree to which the following qualities are present:

- Profitability.
- Ability of the company to manage current projects and to fund long term projects with an acceptable and improving rate of return.
- Adequacy of cash flow, strong balance sheet.
- Cost effectiveness.
- Ability to access funds.
- Ability to generate capital growth and profit.

- Manageable debt to assets ratio.
- Increasing shareholder value.
- High equity backing.
- High revenue compared to competitors.

Ability to attract, develop, and keep talented people
This factor refers to the degree to which the following qualities are present:

- A corporate profile where people seek to work.
- A learning company.
- Open management style.
- High ethical standards.
- Strategic orientation combined with a performance based reward system.
- Flexible, "humane", enjoyable work environment.
- Autonomy.
- Encouragement, reward and the provision of resources for people to create and develop products and services.
- Ability to create a winning team.

Community and environmental responsibility
This factor refers to the degree to which the following qualities are present:

- Functioning profitability without adverse effect on community and environment.
- Ethical practices.
- Able to run and develop a socially responsible business enterprise with long-term sustainability while still meeting financial objectives.
- Non-polluting, safe and non-toxic products.
- High quality of work life.
- Able to account for the overall welfare of the society.
- Supporting the community.
- The sense that the company is aware of its place in the environment and conscious of its need to contribute.
- Environmental, socio-economic, health and safety, and community awareness.

Use of corporate assets
This factor refers to the degree to which the following qualities are present:

- Able to generate new capital.
- Able to withstand market fluctuations.
- Wisely leveraged.
- Socially responsible, environmentally sound and sustainable.
- Ethical.
- Effective utilization of assets to generate income exceeding the cost of those assets.
- Ability and willingness to use the company's capital for growth in income.