

A Reputational–Performance Framework in an SME Context: Some Empirical Evidence from Spain[†]



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ABSTRACT

This study attempts to analyse the role played by reputation as an intangible resource in Spanish SMEs and its reciprocal relationship with organisational performance. The analysis is made from a resource-based view of the firm, which highlights the potentiality of intangible assets like reputation to explain returns above the average of the rivals. A literature review is carried out in order to explore if reputation can be considered a source of competitive advantage in SMEs. A model based on management perceptions is proposed and tested using structural equation analysis on a sample of Spanish SMEs. The results thus obtained, in line with research performed on large firms, seem to confirm in small and medium-sized enterprises the influence of past performance on the present managerial perception of reputation and of this perception on future performance.

Key Words: Reputation; Performance; Resource-based view; Competitive advantage; Structural equation model

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INTRODUCTION

There is a growing body of research focused on the identification of different sources of competitive advantages in small and medium-sized enterprises (SMEs). From the resource-based view (RBV) of the firm, there are many who consider that intangible resources are the main drivers of sustainable competitive advantages (Leitner and Warden, 2004; Villalonga, 2004). Among these intangibles, reputation is one of the most influential strategic resources when it comes to a firm's performance (Carmeli and Tishler, 2004a). This is borne out by the energy and effort that often goes into creating, developing and sustaining a reputation (Hall, 1992; Barney, 1986). It should come as no surprise, therefore, that the study of reputation has come to the fore in recent years (Weigelt and Camerer, 1988; Fombrun and Shanley, 1990; Szwajkowski and Figlewicz, 1999; Fombrun et al., 2000; Shamsie, 2003; De La Fuente and De Quevedo, 2003a, 2003b; Carmeli and Tishler, 2004b; Martín et al., 2004; Rindova et al., 2005).

This paper attempts to contribute to the existing literature about SMEs, analysing the role played by intangible resources as sources of competitive advantage. Since there is a limited number of empirical studies about intangibles in small firms, the purpose of this paper is to enlarge that body of knowledge by investigating the adequacy of the resource-based view of the firm as a theoretical framework useful to identifying and analysing how some resources contribute to SMEs' organisational performance, and the extent to which some intangible resources, like reputation, help to explain firms' superior performance.

This work begins by reviewing different sources of competitive advantages in SMEs. Then, a revision of the reputation literature is carried out, from a resource-based perspective, including also other terms close to reputation, such as organisational identity and image. After this, the conceptual framework suggested by Weigelt and Camerer (1988) is adopted to analyse some of the different approaches used for evaluating reputation in various empirical studies. A model of the mutual relationships between performance and reputation is then formulated and tested using structural equation analysis. The variables used in the model – apart from those measuring the organisational performance – attempt to capture the different

dimensions of reputation, as conceived by Weigelt and Camerer (1988); an approach that, as far as we know, nobody has followed before in an empirical study of organisational reputation. This study differs from others in that these dimensions are gleaned only from management perceptions,¹ which refer to the judgement that the stakeholders have about the reputation of the organisation. This process is particularly interesting because, although these perceptions do not necessarily correspond to any objective criteria, they do indeed reflect the influence of these perceptions, often unconsciously, on the decision-making process (Whetten and Mackey, 2002). The study concludes by presenting the most relevant conclusions, limitations and lines of future research.

REPUTATION AS A SOURCE OF COMPETITIVE ADVANTAGE IN SMES: THEORETICAL BASIS

Competitive Advantage in Firms

One topic of important debate in the field of strategic management is the nature of competitive advantage in firms. For example, Porter (1985) states that a competitive advantage comes from the value that a firm creates for their customers, which is greater than the cost of producing it. Meanwhile, Barney (1991) argues that a firm has a *competitive advantage* when it is able to implement a strategy that creates value and the existing and/or potential rivals cannot implement it at the same time, and it has a *sustained competitive advantage* when those organisations cannot replicate the profits of its strategy. This is an example of the academic debate between two perspectives: industrial economy and the resource-based view.

The research linked to competitive advantage is not only applicable to large firms, but to small ones too. One research issue of growing interest about SMEs is trying to identify and understand the resources that allow an enterprise to create and maintain a sustainable competitive advantage and to improve organisational performance (Bamberger, 1989; Chaston and Mangles, 1997; Wickham, 2001). Nowadays, the resource-based view of the firm (Wernerfelt, 1984; Barney, 1991) has become increasingly influential on the research on SMEs (Jones and Tilley, 2003). Evidence of this includes Feigenbaum and Karnani (1991) exploring organisation change and structure, Bacon et al. (1996) studying human resource management,

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Gadenne (1998) analysing how different sources of competitive advantage interact to improve performance in Australian firms, Rangone (1999) using this approach for a strategic analysis of small enterprises, Cobbenhagen (2000) adopting the RBV for identifying sources of competitive advantage in a sample of SMEs in the Netherlands, and Aragón-Sánchez and Sánchez-Marín (2005) exploring the relationships among strategic orientation, management characteristics and performance in a sample of Spanish SMEs.

Reputation as a Resource

Although SMEs do not brand themselves or their images in the same way or do not employ the same marketing concepts as large firms (Nedungadi, 1990), the intangible resource of reputation seems critically important for an organisation of any size (Rindova et al., 2005) and can be considered as well a strategic organisational resource capable of generating a sustainable competitive advantage (Peteraf, 1993) for SMEs. Further, reputation is generally believed to be an intangible resource that has firm roots within organisational history (Wernerfelt, 1984), is difficult for competitors to imitate due to the complex nature of the way it develops and is accumulated over time (Dierickx and Cool, 1989), is highly specific to the firm where it is nurtured, is available to use over the long term (Hall, 1993) and, in organised markets, its acquisition has obvious difficulties (Salas, 1996). All of these characteristics, according to Barney (1991), are prerequisites for being able to label a resource ‘strategic’ (it must be valuable, scarce, difficult to imitate and non-substitutable) and Sham-sie (2003) shows that reputation fulfils this criterion.

At this point – although, obviously, developing a theory about reputation is not the purpose of this paper – some theoretical distinctions should be made considering the lack of conceptual consensus in the reputation literature (Smidts et al., 2001; Bromley, 2000; Carmeli and Tishler, 2005). Three frequently quoted terms generate debate: organisational identity, image and reputation. There are divergent views of organisational identity (Van Riel and Balmer, 1997); for example, some scholars distinguish between identity in organisations (a social aggregate view) and identity of organisations (a social actor view). The first one considers organisational identity ‘as shared perceptions among members’ and the second one ‘as institutional claims



available to members' (Whetten and Mackey, 2002: 395). Organisational image could be defined as 'what organizational agents want their external stakeholders to understand is most central, enduring, and distinctive about their organization' (Whetten and Mackey, 2002: 401).

Definition and Types of Reputation

In relation to reputation, there are several perspectives to define it. For example, Raub and Weesie (1990) state that reputation is an attribute that is ascribed to an actor on the basis of past behaviour. Other authors, such as Fombrun and Shanley (1990), claim that reputation is the outcome of the information accumulation process that takes place as stakeholders capture different signals from the firm. These indicators may be: market signals, such as market performance and dividends policy; balance sheet or accounting signals, such as annual results or risk; institutional signals such as institutional ownership, social responsibility, coverage by the media and size of the firm; and, finally, strategic signals, which might include differentiation and diversification. According to Weigelt and Camerer (1988) reputation should be understood as the knowledge available as to the valuable characteristics of the firm and the emotions of stakeholders towards this firm, whilst Carmeli and Tishler (2004a: 1260) define perceived organisational reputation as the 'top management's view of the outsiders' beliefs about the organization'.²

Scholars consider that there are different types of reputation. These include reputation linked to an aggressive competitor (Caves and Porter, 1977), an attractive organisational climate (Gatewood et al., 1993), product quality (Brown and Perry, 1994) and the social responsibility of the firm (Szwajkowski and Figlewicz, 1999). In the work of Weigelt and Camerer (1988), three kinds of reputation are identified, these are the reputation of the business, the reputation of the product or service and the reputation linked to the corporate culture. The first of these is a consequence of information that refers to the firm. This information includes plant capacity, geographical location, managerial capabilities, strategy, financial strength and social responsibility (Fombrun and Shanley, 1990). The reputation of the product or service is intimately connected to the public perception of quality (Rao, 1994). Finally, the third type of reputation, that of

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corporate culture, is closely linked to the work environment, the firm's system of values or ethics, and the symbols and beliefs that go to make this up (O'Reilly et al., 1991; Sheridan, 1992).

RELATIONSHIP BETWEEN REPUTATION AND PERFORMANCE

Reputation affects performance and is, at the same time, a result of that performance. A manager or a firm may possess an excellent reputation and the publicity surrounding this process may feed the initial value of the strategic resource since it is perceived by the community of stakeholders. Thus, in the literature it is possible to find empirical studies that assume reputation to be either a dependent or an independent variable (De La Fuente and De Quevedo, 2003a).

In order to review the growing and heterogeneous body of literature concerning reputation and its relationship with performance, the papers were separated in two groups. The first group includes those studies that consider reputation as a unique construct, although composed of different indicators depending on the perspective adopted in each study.³ The second group of papers refers to research focused on the relationships between performance and certain dimensions of reputation (e. g. reputation associated with organisational culture).

Some important studies can be considered to be within the first group. First of all, Fombrun and Shanley (1990) find a positive relationship between past performance and reputation and between past accounting profit and reputation. McGuire et al. (1990) find also positive relationships between past return and reputation and between reputation and future return. Brown and Perry (1994) use *Fortune's* database and obtain a direct relationship between past return and reputation. Ferguson et al. (2000) show that strategic groups with higher reputations have superior performance. Deephouse (2000) concludes that a positive evaluation of a firm presented in the media (media reputation) increases the performance of commercial banks. Roberts and Dowling (2002) find a positive relationship between reputation and sustainable performance. De La Fuente and De Quevedo (2003b) state that a circular relationship between reputation and value creation exists in the Spanish banking sector. Shamsie (2003) shows that the ability to develop and exploit reputation drives dominance in industry. Rindova et al. (2005) argue that the organisational reputation of



business schools has a positive impact on performance (measured as salaries of recent MBA graduates). For Carmeli and Tishler (2005), reputation is not associated with certain performance indicators (market share, profitability, financial strength) in a sample of Israeli companies. Finally, Brammer and Pavelin (2006) find that reputation is determined by a firm's social performance, financial performance, market risk, the extent of long-term institutional ownership and the nature of its business activities.

As for the second group, the work of Weigelt and Camerer (1988) is used as a theoretical framework with which to review the salient empirical literature that focuses on the relationship between performance and certain dimensions of reputation. As mentioned above, Weigelt and Camerer separate reputation into three basic components: reputation linked to business, reputation of the product or service, and reputation associated with organisational culture.

Reputation Linked to Business

In the work of Rao (1994), the North American automobile industry at the beginning of the twentieth century is analysed. This particular industry was chosen in order to test the role played by legitimisation in the survival of the firms. In his conclusions, the author affirms that the greater the stock of recognition and prizes accumulated by an organisation, the greater the reputation of that firm will be, and, as a consequence, the less likely the firm will be to abandon the industry. The work of Fombrun and Shanley (1990) models reputation under conditions of asymmetrical information by using the following relationships: one which is positive and consists of the relationship between the financial profits of preceding years and reputation, a second which is negative and consists of the relationship between the profitability of the present dividend and reputation, and a third which is positive and reflects the link between current financial results and reputation. Furthermore, reputation allows firms to establish prices that are higher than those of their competitors, to attract and maintain personnel with greater and more diverse skills, to facilitate access to capital markets and different sources of finance, and to capture investors (Fombrun and Shanley, 1990: 233). Dollinger et al. (1997) investigate the effect of reputation on the decision to establish strategic alliances with potential partners. The results of the





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study indicate that reputation is really a multidimensional construct that, in certain scenarios, cannot be used in an integrated way, rather it must be split up into its various components and individual relationships established. They conclude that the reputation of the product and the reputation of the management team are key factors in taking any decision to establish a strategic alliance.

Reputation of the Product or Service

The positive relationship between the product reputation and its quality has been highlighted in various works (Jacobson and Aaker, 1987; Weigelt and Camerer, 1988; Hall, 1992, 1993; Powell, 1995). Using information obtained from the PIMS (Profit Impact of Market Strategies) database, Buzzel et al. (1975) find positive relationships between product quality and market share, and also between profitability (both return on investment and operating profit margin) and the quality of the product or service. Via a factor analysis of the dimensions of *Fortune's* database, Fryxell and Wang (1994) distinguish between two different factors involved in reputation: the reputation linked to the business and the reputation of the product or service. The study carried out by Kroll et al. (1999) identifies positive relationships between the reputation of product quality and performance, and between the reputation of the product and the firm's market share.

Reputation Associated with Organisational Culture

There are authors who argue in favour of a positive link between reputation and organisational culture: for example, Cremer (1986), Weigelt and Camerer (1988) and Camerer and Vepsalainen (1988) emphasise the point that executives must maintain a good reputation for applying organisational culture successfully if they expect internal stakeholders (like employees) to trust them and, in consequence of this, to perform efficiently; O'Reilly et al. (1991) find that the reputation of the organisational culture can improve the fit of the employees to their organisations, by which we mean the fit or match of individual skills to job requirements; Sheridan (1992) shows that certain organisational cultures give to the firm a better reputation to get the employees to stay within the organisation for a long time; and Gatewood et al. (1993) explore how the reputation of the organisational climate and recruitment image affect initial job choice decisions.



In addition to the literature mentioned before, there is an extensive line of research focused on the relationship between organisational culture and performance. This relationship has generally been examined through the lens of the 'strong culture' hypothesis. According to Arogyaswamy and Byles (1987), strength identifies a certain degree of shared responsibility among the members of a firm with respect to its value systems and beliefs. These authors reason that, the higher the level of agreement, the stronger and more binding the internal culture, which is in turn potentially capable of influencing performance. For example, Deal and Kennedy (1982) encounter a positive relationship between strong organisational cultures and a firm's success. Denison (1984) finds that a participative organisational culture, in conjunction with a pleasant labour environment, helps firms to achieve an organisational performance that outstrips that of competitors. According to the results obtained by Hall (1992, 1993), organisational culture is one of the intangible resources with the greatest power to generate sustainable competitive advantages, while Hitt et al. (1995) identify a positive relationship between organisational culture and the firm's performance. The work of Leal (1997), on the other hand, who analyses a sample of Spanish firms, reveals that the nature of the quality culture adopted by the firm conditions performance. The concept of a 'strong organisational culture', however, is not always an indispensable condition of high profitability. Kotter and Heskett (1992), for example, find that, on investigating the relationship between culture and performance, a strong organisational culture is no guarantee of excellent performance, but rather constitutes an indicator of the extent to which the members of the organisation are supportive of their firm.

RELATIONSHIPS BETWEEN REPUTATION AND PERFORMANCE: EMPIRICAL ANALYSIS

Aims and Hypotheses

Within the RBV framework, this study begins with the analysis of the components that go to make up the intangible resource of reputation, seen from the perspective of Weigelt and Camerer (1988); that is, reputation is linked to the business, to the product or service offered and to organisational culture.

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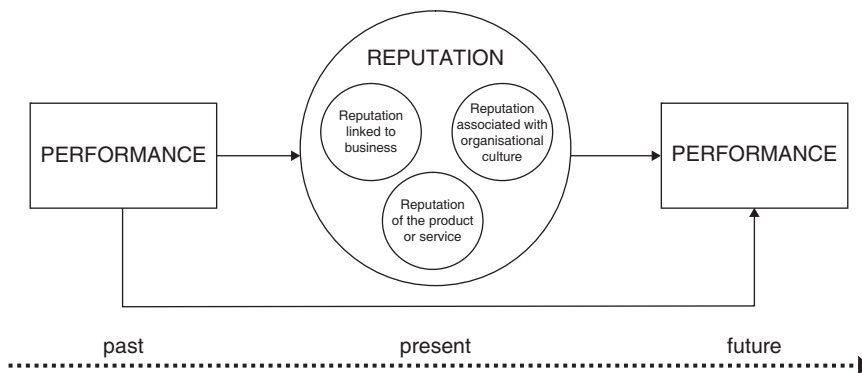
The main objective of the study focuses on the mutual relationships between performance and reputation in SMEs. At this point it should be stressed that there are potentially two relationships that come into play, since, as stated above, reputation may be considered as acting simultaneously as a cause and an effect, that is, it is both an independent and a dependent variable. This feature of reputation is central to this analysis, since its objective consists of verifying the non-contemporaneous two-way relationship between performance and reputation. This idea may be reformulated as follows: a firm's past performance conditions its present reputation (hypothesis 1), and this, in turn, directly influences future performance (hypothesis 2).

H1: The better a firm's performance in the past, the more positive the managers' evaluation of the firm's reputation in the present will be.

H2: The better the managers' evaluation of their firm's reputation in the present, the better the firm's performance will be in the future.

Thus the model, while contemplating reputation as a multidimensional variable, expounds a hypothesis of successive causality that goes from performance to reputation and then from reputation back to performance. Figure 1 provides a schematic view of these hypotheses.

Figure 1: Performance–Reputation–Performance Causal Model



Data and Variables

The sample used for the analysis was made up of 166 SMEs⁴ registered in Spain. All of the firms possessed ISO 9000:1994 certificates⁵ and their data were provided by the ARDAN database.⁶ One top-level manager in each of the companies completed our questionnaire.⁷ The field work was carried out between February and May 1999 and definitive replies were received from 72 firms.

It must be highlighted that in order to select the sample, the definition of small and medium-sized enterprises adopted by the European Commission⁸ was applied: SMEs are defined as enterprises that have fewer than 250 and more than 10 (or exactly 10) employees, and have either an annual turnover not exceeding 40 million ECU (European Currency Units) or an annual balance sheet total not exceeding 27 million ECU. All the sample firms conform to these three criteria. Specifically, the sample's average number of employees in 1999 was 75 (standard deviation 72.6), the average annual turnover was about €16.7 million (standard deviation 29.1), and the average annual balance sheet total was €13.8 million (standard deviation 22.7) that year.

Fifty-two per cent of the sample firms are small and 48 per cent are medium-sized. All of them belong to the following standard industrial classification (SIC) industries: construction (21.5 per cent), manufacturing (50.8 per cent), transport and communication (12.3 per cent), wholesale and retail trade (12.3 per cent), and real estate (3.1 per cent).

Basically, the study uses two variables: performance, and reputation envisaged as a resource. Performance was measured by referring to return on investment (Venkatraman and Ramanujan, 1986). Past performance was estimated by averaging the firm's return on investment over the years 1996, 1997 and 1998, and future performance was proxied by using the average of that return over the years 2000, 2001 and 2002. This measure of future performance using data of three years, apart from making it consistent with past performance, tries to capture the strategic decision-making component⁹ that relates to reputation and performance. All of these data were obtained from the ARDAN database.

There is no agreement among the scholars about the dimensions of the reputation resource.¹⁰ In this study this was conceived of as a latent variable made up of the three components laid out by Weigelt



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and Camerer (1988), which in themselves are constructs. As far as we know, nobody has developed this theoretical reputation framework in an empirical study. This was the reason why we decided to select this approach. The scales¹¹ and items used in this study were obtained and adapted from a literature review (Barney, 1986; Weigelt and Camerer, 1988; Fombrun and Shanley, 1990; Hall, 1993; Brown and Perry, 1994; Doppler and Lauterburg, 1998; Fombrun, 1998). These were set up in the following way:

1. *Reputation linked to organisational culture* was based on the criteria laid down by Hall (1993); that is, ‘innovation’, ‘orientation towards the customer’, ‘team work’, ‘emphasis on quality’, ‘strategic attitude’ (‘change management’ in Hall, 1993) and ‘participative managerial style’. The first three were measured by using one indicator (observable variable) in each case while the remaining three were created using a set of indicators. All of these indicators were obtained from the answers to the questionnaire.
2. The definition of *reputation linked to business* was based on the dimensions set out in *Fortune*; that is, ‘quality of the management team’, ‘social responsibility’, ‘financial position’, ‘innovation’, ‘attracting and maintaining qualified or skilled personnel’, ‘use of assets’ and ‘value of long-term investment’. The final two dimensions in this list, however, were discarded because, as Fryxell and Wang (1994) state, they are basically indicators of performance. It should be remembered that performance is both a dependent and independent variable in this work, hence the inclusion of these dimensions would only serve to cloud the analysis. Of the five remaining dimensions only ‘quality of the management team’ was created as a construct. All of the indicators of the five dimensions were observable and obtained from the questionnaire.
3. The *reputation of the product or service* was measured by assessing the evaluations undertaken by the managers of the potential impact of possessing a high-quality product. In contrast to the other components of reputation, which were more complex, this was defined by referring to a single observable variable.¹²

In relation to the items of the questionnaire¹³ it is important to stress that on its first page we gave some instructions about what the



executive should assess. Among them, 'all of the 25 items that are presented to you in this questionnaire refer to your opinion about the judgement that the stakeholders of your organisation (customers, employees, suppliers, competitors, society, banks, stockholders, public administrations and other actors) have about the reputation of your firm'. These items, chosen as possible indicators of the different components of reputation, are given in Table 1. All of them were measured on a seven-point Likert scale. This table also provides descriptive statistics for all the variables. The correlation matrix, with

Table 1: Variables, Means and Standard Deviations

This table contains the survey variables that were chosen as possible indicators of the different components of the 'reputation' construct, and the performance variables. The values of the former were obtained from the answers given to a questionnaire; the latter were measured by referring to return on investment, and obtained from secondary data sources. Means and standard deviations are reported for all of them.		
Variable	Mean	Standard Deviation
REPUTATION ^a		
Reputation associated with organisational culture		
<i>Innovation:</i>		
V1: Product and process innovation	4.71	1.43
<i>Orientation towards the customer:</i>		
V2: Identification of customer needs	4.81	1.40
<i>Teamwork:</i>		
V3: Teamwork	4.58	1.27
<i>Emphasis on quality:</i>		
V4: Product development	4.47	1.30
V5: Quality control	5.27	1.77
V6: Quality analysis	4.70	0.95
V7: Quality correction	4.31	1.02
V8: Quality improvement	5.34	0.93
<i>Strategic attitude:</i>		
V9: Future scenarios	4.13	1.23
V10: Strategy development	3.98	1.00
V11: Strategy implementation	4.34	1.24
V12: Predisposition to change	3.77	1.24
V13: Flexibility	4.83	1.56
V14: Culture development	3.66	1.27

(Continued)

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Variable	Mean	Standard Deviation
<i>Participative managerial style:</i>		
V15: Managerial confidence in subordinates	3.00	1.25
V16: Effective ascendant–vertical communication	4.75	1.55
V17: Subordinate–management interaction	4.81	1.83
Reputation linked to business		
<i>Quality of the management team:</i>		
V18: Decision-making effectiveness	5.53	1.44
V19: Monitoring of established objectives	3.47	1.56
V20: Teamwork management	3.06	1.60
V21: Teamwork decision making	3.05	1.39
<i>Social responsibility:</i>		
V22: Firm's social compromise	4.78	1.36
<i>Financial position:</i>		
V23: Financial strength	3.47	1.58
<i>Innovation:</i>		
V1: Product and process innovation	4.71	1.43
<i>Attracting and maintaining skilled personnel:</i>		
V24: Attracting and maintaining skilled personnel	3.63	1.44
Reputation of the product or service		
V25: Presence of quality products	4.41	1.47
PAST PERFORMANCE	0.10	0.07
FUTURE PERFORMANCE	0.10	0.07

^a *Measurement of items: seven-point Likert-type scale*

intercorrelations for the three reputation dimensions, past performance and future performance, is shown in Table 2.

At this point it is important to notice that control variables were also taken into consideration. Previous literature has proved that industry type and firm size can impact on firm performance (Wilcox and Zeithaml, 2001; Carmeli and Tishler, 2004a). In our study, to control for the effects of industry type (Vicente-Lorente, 2001), a categorical variable was created with the different industries; and, in order to control for firm size effects, the number of employees was used (Spanos and Lioukas, 2001). Additionally, to control for whether the firm offers a product or a service (Delaney and Huselid, 1996), another categorical variable was developed (product/service).

Table 2: Correlation Matrix

	Reputation	Organisational Culture Reputation	Reputation Linked to Business	Reputation of the Product or Service	Past Performance	Future Performance
Reputation	1					
Organisational Culture Reputation	0.903	1				
Reputation Linked to Business	0.850	0.711	1			
Reputation of the Product or Service	0.768	0.555	0.392	1		
Past Performance	0.707	0.708	0.592	0.465	1	
Future Performance	0.470	0.499	0.373	0.375	0.584	1

All correlations are significant at the 0.01 level (bilateral)

Despite this, they are not explicitly in the model because in the analysis they did not give any statistically significant results.¹⁴

Methodology

This study uses both observable and latent variables in combination within a set of simultaneous linear relations, and there is the possibility that measurement errors in the designed latent variables might exist. Therefore, the use of covariance structural analysis or a structural equation model would seem to be most appropriate (Lévy and Varela, 2003: 23). The model is run using the AMOS 5 program.

The choice of the method for estimating the parameters is conditioned by the characteristics of the sample used. Firstly, the size of the sample is small since there are only 72 observations available, but this number is above the minimum required for estimating covariance matrices (Jöreskog and Sörbom, 1996). Given the size of the sample it was decided not to eliminate any of the observations with missing values. This would have reduced the size of the sample to only 43.



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The method of maximum likelihood was chosen since it allows the use of missing data and, although it is normally used on sample sizes of between 100 and 200 cases, it has been demonstrated that it provides valid results for samples of 50 observations (Hair et al., 1999: 632) and in the presence of moderate departures from normality (Raykov et al., 1991: 501).

Results

Structural equation models (SEM) are made up of two systems of equations: the measurement model and the structural model. The first of these specifies which indicators define each construct or latent variable, while the second expresses the relationships of causality among the latent variables or between the latent and observable variables. Thus, the measurement model is used to define the reputation construct and the structural model to test the hypotheses.

SEM was applied in order to evaluate whether or not the definition of the reputation concept is adaptable to the specifications proposed above. The results of the test showed that the factor loadings of certain variables were not significant at the 0.05 level and it was deemed appropriate to eliminate these¹⁵ from the analysis in order to re-specify the model. Without them an adjusted measurement model was obtained in which all of the factor loadings are significant at the 0.05 level (see Table 3).

Table 3 also shows the values of some measures of suitability of fit for the re-specified measurement model. The chi-square test gives a p-value of 17.5 per cent, a value that is a long way above the 5 per cent that is normally taken as a benchmark for an acceptable level of fit. And the parsimony measured by the normed chi-square test gives a value that is very close to 1; a result that is indicative of a good fit. The comparative fit index (CFI) echoes these results with a value of over 0.9, as does the root mean squared error of approximation (RMSEA) with a value below 0.05.

The fit assessment for the measurement model should be completed by checking the composite reliability of the constructs and this should give some idea of the internal consistency of the indicators that go to make them up. As can be seen from the first panel in Table 4, all of the constructs, with the exception of *strategic attitude* and *quality of the management team*, are reliable since they either





Table 3: Standardised Factor Loadings and Fit Measures of the Adjusted Measurement Model

Construct	Indicator/Construct ^a	Loading	t-value ^b
Emphasis on quality	V4	0.660	5.079
	V5	0.736	—
	V6	0.320	2.430
	V8	0.621	4.773
Strategic attitude	V10	0.338	2.345
	V11	0.529	—
	V12	0.354	2.437
	V13	0.368	2.518
Participative managerial style	V16	0.688	5.882
	V17	0.829	—
Management team quality	V18	0.515	—
	V19	0.769	2.781
Organisational culture reputation	Emphasis on quality	1	6.406
	Strategic attitude	1	4.288
	Participative managerial style	1	—
Reputation linked to business	Management team quality	0.711	—
	V22	0.835	2.718
	V23	0.653	2.588
Reputation	Organisational culture reputation	0.965	2.472
	Reputation linked to business	0.876	—
	Reputation of the product	0.608	2.457

^a Constructs of higher level are mainly composed of constructs of lower level

^b Critical *t* for $\alpha=5\%$ is 1.96 and for $\alpha=1\%$ is 2.576 (two-tailed tests)

Without value when the unstandardised factor loading was fixed to 1

Model fit: chi-square (df) = 99.203 (87), *p*-value = 0.175, normed chi-square = 1.140, CFI = 0.952, RMSEA = 0.047

approach or exceed the recommended threshold of 0.7. In our opinion, this result is favourable and, consequently, we can accept that the measurement model fits reasonably well with the data, given that 0.7 is not an absolute standard (Hair et al., 1999: 638), that the values obtained by the above constructs are not too low, and that the main construct being modelled, *reputation*, is highly reliable.

The *structural model* contemplates the causal relationships between past performance and present reputation (hypothesis 1) and present reputation and future performance (hypothesis 2) in SMEs. On juxtaposing the adjusted measurement model and the structural





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Table 4: Composite Reliability of the Constructs

	Emphasis on Quality	Strategic Attitude	Participative Managerial Style	Organisational Culture Reputation	Management Team Quality	Reputation Linked to Business	Reputation
In the adjusted measurement model	0.683	0.430	0.733	1	0.590	0.779	0.865
In the proposed theoretical model	0.695	0.416	0.720	1	0.582	0.783	0.816

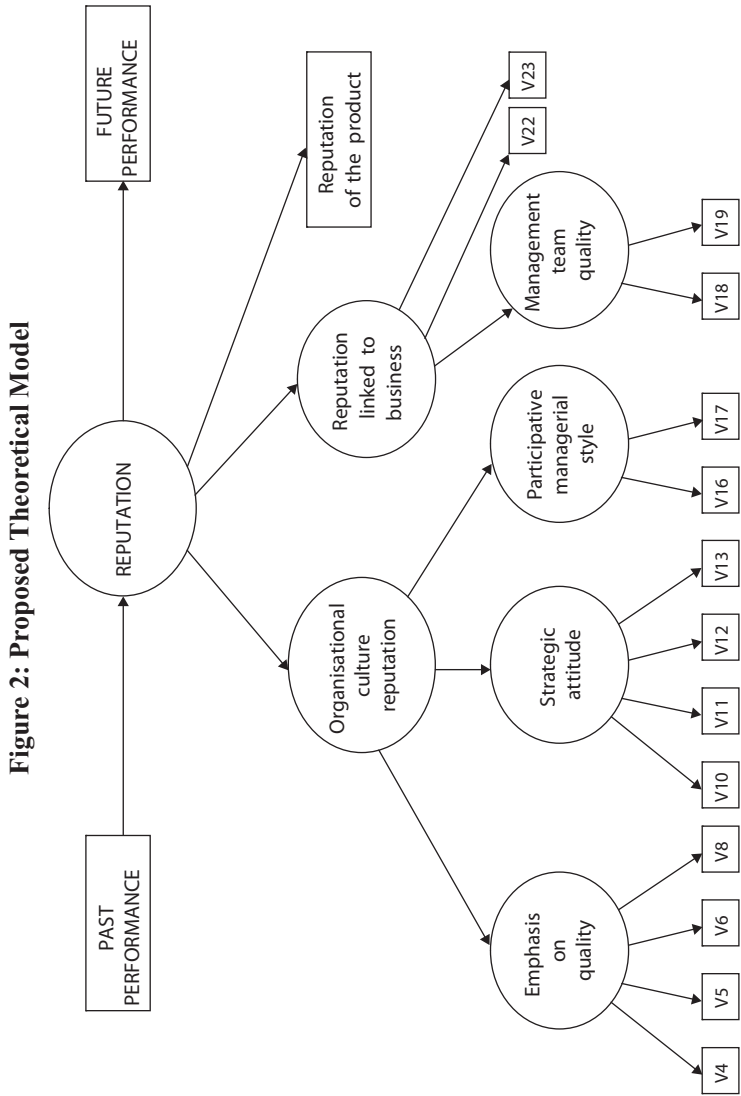
model the proposed theoretical model is obtained, as can be seen in Figure 2.

Since the model fits adequately it does not need to be re-specified. This is what the values of the indices of fit indicate (see Table 5); values that either exceed the recommended reference limits (5 per cent for the chi-square probability and 0.9 for the CFI), or are to be found within the interval of acceptance (between 1 and 2 for the normed chi-square test and between 0.05 and 0.08 for the RMSEA). These results suggest the absence of serious specification errors and impede the rejection of the hypothesis that the theoretical model fits reasonably well with the data.

From the second panel of Table 4 it can be seen that the constructs are no less reliable in their composition in the theoretical model. Furthermore, all of the factor loadings and t-values of the relationships that go to make them up hardly vary at all with respect to those obtained in the adjusted measurement model and shown in Table 3, and remain significant at the 0.05 level.

As far as hypotheses 1 and 2 are concerned, both appear to have been confirmed by the data. This is indicated by the positive sign of the regression weights for the relationships *past performance* → *present reputation* and *present reputation* → *future performance* and the high corresponding t-values that appear in Table 5. These results, obtained with our sample of Spanish SMEs, are in line with those of previous studies relative to large firms. For example, Fombrun and Shanley (1990) and Brown and Perry (1994) find that there is a





54 *A Reputational–Performance Framework in an SME Context***Table 5: Standardised Regression Weights and Summary of Fit Measures of the Structural Model**

	Standardised Parameter Estimates	t-value ^a
Hypothesis 1: Past Performance → Reputation	0.792	4.569
Hypothesis 2: Reputation → Future Performance	0.619	3.836

^a Critical *t* for $\alpha=5\%$ is 1.96 and for $\alpha=1\%$ is 2.576 (two-tailed tests)

Model fit: chi-square (df) = 133.97 (116), p-value = 0.122, normed chi-square = 1.155, CFI = 0.942, RMSEA = 0.050

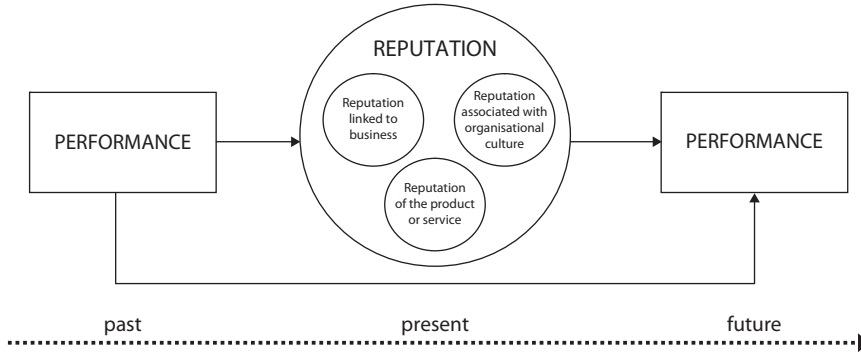
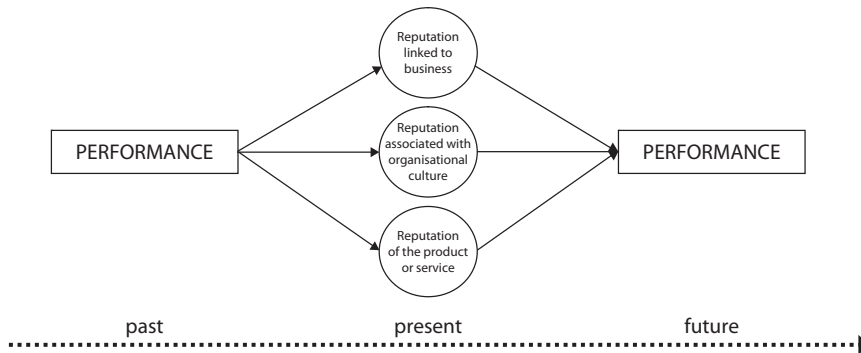
positive relationship between past profitability and present reputation while McGuire et al. (1990) find a positive relationship between present reputation and future profitability.

Rival Models

Frequently, obtaining an acceptable level of fit for the measurement and the structural models does not imply having found the best possible model. That is why comparison with other rival models is highly recommended (Hair et al., 1999: 619). In this sense we have tested two alternative models, which will be briefly described.

It is reasonable to suppose that a certain correlation between the two performance measures used in the analysis exists. In fact, the Pearson correlation between them, 0.58, is high and significant at the 0.01 level. So, if we hypothesise that past performance directly conditions future performance, we can expect that, in the presence of this direct relationship, that relationship induced by reputation will have no effect. Thus, a model with both relationships is proposed, as shown in Figure 3. As expected, because of the high correlation between past and future performance, their relationship is significant, but the one mediated by reputation is significant too. This model shows an acceptable fit,¹⁶ as good as the original model does. And in our opinion these results support the validity and the robustness of our proposed theoretical model.

In the second rival model – see Figure 4 – construct reputation has been eliminated. We analyse here possible relationships between each one of the three identified reputation components and corporate

Figure 3: First Rival Model**Figure 4: Second Rival Model**

performance, resulting in an unacceptable fit¹⁷ by this model and its consequent rejection.

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

This study analyses reputation as an intangible resource in SMEs from a resource-based approach, going deep into the reciprocal relationships between reputation, as a strategic resource, and organisational performance.

Despite the fact that empirical studies considering large firms are highly frequent in the reputation literature, the study of reputation in SMEs has not yet been developed. This is one of the reasons why this paper focuses on researching reputation in small and medium-sized firms.

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The hypotheses and relationships contained in the theoretical model laid out in Figure 2 have been partially considered in a number of key studies in large firms in the literature, but not in SMEs. Moreover, the model has been compared to alternative rival models in order to discard other possible relationships among the variables that could have been considered.

The results of the empirical study support the adequacy of the resource-based view as a theoretical approach to investigating reputation in the context of small firms. In addition, the following relevant conclusions have been obtained from the test:

- Reputation is a complex, heterogeneous resource that is closely linked to organisational factors that are also multi-faceted and diverse. Some of the most important components of reputation seem to be past performance, the quality of the firm's product or service, the reputation *stricto sensu* generated from the information that the firm projects within the financial and social environment in which it carries out its activities, and its organisational culture. Organisational culture would appear to be built around particularly relevant factors such as the presence of a participative managerial style, the emphasis that the management places on the planning, control and monitoring of quality, or the presence of strategic attitude within the firm.
- The fundamental effect of reputation resides in the significant positive relationship it has with the future profitability of the firm. It should be stressed that there is a time lag between present reputation and its effects in the future on organisational performance. Without a doubt, this relationship will have important consequences on the long-term focus of the company: if the flow of information from the firm to the external environment is improved and there is a firmer emphasis on the quality of products and/or services and on a variety of cultural factors, profitability will be positively influenced.
- Further, the confirmation of the two hypotheses linking past and future performance with present reputation suggests that there is positive feedback generated by reputation: past performance acts as a precursor of present reputation which, in turn, feeds

subsequent performance. In short, performance and reputation would seem to mutually reinforce each other.

To summarise, the positive relationship observed between reputation and performance in previous studies carried out in the context of large firms seems to operate in the same way with SMEs. These results constitute a starting point for the spread of some findings of reputation research in large firms to the SME field.

However, several limitations suggest that our assessments must be viewed cautiously. Firstly, the answers of SMEs' managers may be more biased than those of large firms' managers. Furthermore, when surveying only one executive a frequent RBV limitation arises: sometimes there is no agreement among the different managers of the firm about which are the strategic resources that drive organisational performance. Secondly, despite the fact that some control variables have been examined although not included in the model, there are others which could have been used, but for whom the questionnaire did not provide information; for example, perceived environmental uncertainty, management characteristics and ownership (family versus other groups). Thirdly, the reputation of the product/service is single-item scale and, thus, should be interpreted carefully. Moreover, in an SME scenario it is difficult to separate the reputation of the product from that of the organisation because of firm size. Fourthly, the research design may generate response bias towards overestimating the reputation of the firms due to the fact that each manager gave his opinion about the judgement that the stakeholders of his organisation have about the reputation of his firm. Actually, the opinion of the stakeholders has not been considered. Additionally, managers are a crucial part of the firm's reputation in the context of SMEs.

As for future research, some possible lines to pursue are the following ones: a deeper analysis of the deferred effects of the reputation resource on alternative indicators of organisational performance, including new time periods; identifying and testing the effects of human resource practices on reputation and performance; and testing the scale used in this study with other samples (of large firms and SMEs), applying it both to managers and to stakeholders, for the sake of the possible generalisation of the results of this study.



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- ¹ Despite the fact that in most of the reputation literature corporate reputation is built on heterogeneous constituents' perceptions about organisations (Fombrun and Shanley, 1990; Fombrun, 1998; Brown and Perry, 1994; Roberts and Dowling, 2002), there is a growing body of recent works (Carmeli and Tishler, 2004a, 2004b, 2005) that use only the management view of reputation in their models. For example, Carmeli and Tishler (2004a: 1260) clarify this argument, making a distinction between the 'organizations' reputation' and the 'perceived external prestige': '[A]ssuming that the CEO (or general manager), as the representative of the management team, has the ability to correctly assess the organization's reputation, we use the term perceived organizational reputation to mean top management's view of the outsider's beliefs about the organization.' This perspective is highly operative for our research because we work with a multiple industries sample of SMEs. A stakeholder approach to reputation in this study could have serious obstacles in order to implement it (see, for example, Nedungadi, 1990).
 - ² This is the most suitable definition for the reputation approach adopted in the empirical section of this paper.
 - ³ The sources of information used by a large proportion of them are, in origin, adaptations of sources used by *Fortune* (Fombrun, 1998).
 - ⁴ SMEs comprise 99.8 per cent of all the businesses in Spain (García, 2002).
 - ⁵ Spanish SMEs holding ISO 9000:1994 certificates were selected because this study is part of a research project that analyses the strategies of SMEs with a quality certificate.
 - ⁶ The ARDAN database is one of the most complete and best known Spanish databases providing identification and economic data (financial, accountancy, competitive position, internationalisation, etc.) on more than 80,000 Spanish firms.
 - ⁷ Without doubt questioning several managers would have provided us with a more reliable measure of, for instance, the 'organisational culture' construct. However, it is not infrequent in the literature to ask only one executive to complete the survey; see De La Fuente and De Quevedo (2003b), Carmeli and Tishler (2004a, 2004b, 2005), Saxton and Dollinger (2004), and Aragón-Sánchez and Sánchez-Marín (2005).



- ⁸ Although the purpose of this paper is not to establish the differences between SMEs and large firms, in order to select a criterion of definition of an SME, we follow the Commission Recommendation of 3 April 1996 (96/280/EC) concerning the definition of small and medium-sized enterprises (text with EEA relevance); at present it has been replaced by 2003/361/EC Commission Recommendation of 6 May 2003. However, the adoption of a criterion to select SMEs is a highly controversial topic due to the lack of agreement in the literature. See, for example, Osteryoung and Newman (1993), who develop a chronological view of variables, criteria and definitions most often used to differentiate SMEs and large firms.
- ⁹ Scholars like Weigelt and Camerer (1988), Dierickx and Cool (1989), and Hall (1992) argue that the building of a reputation is a complex social process that needs time. Moreover, Barney (2001) emphasises the necessity of testing the role played by the different types of resources on the firm's future performance.
- ¹⁰ Some examples of reputation dimensions: business, product and culture (Weigelt and Camerer, 1988); *Fortune*'s dimensions – business reputation and product reputation (Fryxell and Wang, 1994); management, financial and product service quality (Dollinger et al., 1997); financial strength and claims-paying ability (Ferguson et al., 2000); emotional appeal, products and services, vision and leadership, workplace environment, social and environmental responsibility, and financial performance (Fombrun et al., 2000); media reputation ratings – favourable, neutral and unfavourable (Deephouse, 2000); *Fortune* dimensions (Roberts and Dowling, 2002); strategy and management, clients, employees and society (De La Fuente and De Quevedo, 2003b); management, financial, and product-service quality (Saxton and Dollinger, 2004); *Fortune* dimensions (Carmeli and Tishler, 2005); and perceived quality and prominence (Rindova et al., 2005).
- ¹¹ Most of the scholars adapt the items of the 'basic' questionnaire carried out by the American magazine *Fortune*, see, for example, Fryxell and Wang (1994).
- ¹² The reputation of the product or service is captured by a single item, 'product/service quality', following Brown and Perry (1994: 1354), Dollinger et al. (1997: 140), and Carmeli and Tishler (2005: 30, item 10). Despite the fact that this is a limitation of the study, an alternative approach could be using some of the scales adopted in the brand equity literature by marketing researchers (Aaker, 1996). This option was rejected because it increases substantially the number of items of the questionnaire and, considering the population size, we could find some statistical problems estimating the proposed causal model.



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- ¹³ The complete questionnaire is available upon request from the authors, please contact us at vicente.lopez.lopez@usc.es.
- ¹⁴ First, three ANOVA analyses with future performance as dependent variables were carried out: the factor employed was the industry type in the first one, the level of employees in the second one, and the ‘product/service’ variable in the third one. No significant differences in means and variances of performance among the firms were shown in any of the three cases.
- Yet, we modified the model proposed in this paper to include the control variables industry type and size. In both cases the relationships affected by these variables were not statistically significant. That is why these control variables will be not present in the model.
- ¹⁵ The following variables were eliminated: in *organisational culture reputation*, V1, V2, V7, V9, V14 and V15; and in *reputation linked to business*, V20, V21 and V24. See the description of these indicators in Table 1.
- ¹⁶ Chi-square (df) = 129.54 (115), p-value = 0.167, normed chi-square = 1.126, CFI = 0.953, RMSEA = 0.045
- ¹⁷ Chi-square (df) = 158.72 (115), p-value = 0.004, normed chi-square = 1.380, CFI = 0.859, RMSEA = 0.078

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