

IMPACT OF CORPORATE IMAGE AND CORPORATE REPUTATION ON CUSTOMER LOYALTY: A REVIEW

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Abstract: How to Boost customer satisfaction and customer loyalty is a golden rule of that business create profit in low profit era. This study aims to describe the relationship between corporate image and corporate reputation, and their impact on the customer's loyalty. In the end of this paper, a model of evaluation this impact is proposed.

Key words: corporate, image, reputation, customer loyalty

1. INTRODUCTION AND BACKGROUND

The customer is one of the vital "assets" for business. Business that lacks this important asset may face the difficulty that operational income is less than operational cost; business losing customers may confront the problem of a profit decline. Several studies have shown that improving service quality and customer satisfaction results in better financial performance for business. However, more and more researchers have realized that corporate image and corporate reputation are the most important factors to form customer loyalty.

Many researchers in marketing have recognized the critical roles of corporate image and corporate reputation in customer' buying behavior. The two factors are particularly important in developing and maintaining a loyalty on the part of customers. In other aspects, corporate image and corporate reputation are generally considered as two distinct constructs which may be strongly related. Most of the studies have analyzed corporate image and corporate reputation separately. At a most guarded level, some authors have expressed a potential link between the two concepts.

With this in mind, the objective of this study is to describe the relationship between corporate image and corporate reputation, and their impact on the customer's loyalty. The understanding of these relationships contributes to establish the distinction between image and reputation and to help management use them more effectively in its communication strategy, thereby enhancing the firm's position. Moreover, because corporate image and corporate reputation are considered as the global outcomes of the process of legitimating or the credentialing mechanism, their level of abstraction may be high; consequently, they are complex to conceptualize and difficult to measure.

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2. DEFINITIONS

2.1 corporate image

It is argued that corporate image is what comes to mind when travelers hear the name of a place, a hotel or a restaurant. Corporate image is the consumer's response to the total offering and is defined as the sum of beliefs, ideas, and impressions that a public has of an organization. It is related to business name, architecture, variety of products or services, tradition, ideology, and to the impression of quality communicated by each person interacting with the organization's clients.

Corporate image may be considered as a function of the accumulation of purchasing/consumption experience overtime and has two principal components: functional and emotional. The functional component is related to tangible attributes that can be easily measured, while the emotional component is associated with psychological dimensions that are manifested by feelings and attitudes towards an organization. These feelings are derived from individual experiences with an organization and from the processing of information on the attributes that constitute functional indicators of image. Corporate image is, therefore, the result of an aggregate process by which customers compare and contrast the various attributes of organizations.

Berman and Evans, in 1995, considered corporate image as a functional and emotional mixture; that is, the prior experience of getting contact with enterprises including inexperienced information such as advertising, word-of-mouth effect and prediction meet expectation in the future that has a directive positive influence on satisfaction; Mitchell (2001) believed as specific and important relation between corporate and managing performance it would influence the corporate profit.

2.2 corporate reputation

According to Bennett and Kottasz (2000), corporate reputation theory had its origins in the 1950's when the concept of corporate image emerged. In the 1970's and 1980's, it evolved to focus more on corporate identity. A decade later, the theory developed into its modern form with the increased interest in brand management and corporate reputation. Argenti (1997) attributed the growth of interest in reputation management partially to the success in crisis management.

Bennett and Rentschler (2003) defined reputation as "a concept related to image, but one that refers to value judgments among the public about an organization's qualities, formed over a long period, regarding its consistency, trustworthiness and reliability." A company's image can affect its credibility and effectiveness in reaching key internal and external audiences such as clients, employees, and the media. According to Jacobs (1999), "career success may depend as much on how others perceive you as on your abilities." Internal factors that affect a company's reputation include its ability to communicate, transparency, human values, treatment of employees, ability to innovate, CEO's reputation, adaptability to change, and handling of social and environmental issues. Among the external forces that impact corporate reputation are customers, print and broadcast media, financial analysts, shareholders, industry analysts, regulators and government (Lines, 2003). Marken (2002) defined reputation as assets that included "quality of products and services, ability to innovate, value as long-term investment, financial stability, ability to attract, develop, retain talent; use of corporate assets, and quality of management."

Marken (2004) believed that reputation was built and managed on small daily actions. He explained, "a reputation is built with each phone call, each email, each release, each decision and each action." Genasi (2001) also warned against seeing reputation management as anything but day-to-day business and insisted that "quality of communication has to be supported by quality of action." In other words, reputation cannot be spun.

Since the 1990's research has shown how reputation can be a strategic resource for a company that can affect its financial performance (Deephouse, 2002). The importance of reputation is also highlighted by the results of a survey conducted in 2000 by the Association of Insurance and Risk Managers of 250 leading companies in the United Kingdom. The participants identified damage to reputation as the

biggest risk to their business (Smith, 2003).

2.3 customer satisfaction

2.3.1 definition

Cardozo (1965) firstly addressed customer satisfaction and pointed out that customer satisfaction will increase repeated purchase behavior and other merchandise. With category aspect, Oliver (1981) considered that satisfaction was an emotional reaction resulted from one transaction-specific; further, Fornell (1992) considered that comprehensive measurement of all the purchase and consumption, encompassing enterprise's past, now, and future cumulative measurement of performance would offer some important operational performance indicators to enterprises in the future.

2.3.2 The customer satisfaction quandary

Although, wanting to build systems from the perspective of the customer's experience – from the outside in – many companies establish standards or procedures created from the inside out. From the newspaper it is not difficult to find examples of companies meeting their customer satisfaction standards while losing the customers.

Several assumptions are involved in efforts to influence a customer's attitude. One assumption is that internally developed quality standards of service lead to customer satisfaction. A second assumption is that high levels of customer satisfaction result in a high volume of repeated purchases. Another assumption is that measurements of customer satisfaction can predict a customer's future behavior. Each of these assumptions presumes a cause-and-effect relationship.

Those assumptions began to fall apart in the real world as suppliers had different experiences (Keiningham, Vavra, Aksoy, and Wallard, 2005). For example, a large sporting goods company found no increase in repeated sales or volume between comparable groups of stores despite the fact that one group of stores had launched a customer satisfaction program and the other had not. Another retailer found that the slight increase in the volume of sales did not justify the cost of its customer satisfaction program. The Forum Corporation reports that up to 40 percent of the customers in its study who claimed to be satisfied (by typical attitude measures) switched suppliers without looking back.

Nordstrom has discovered that its reputation for customer satisfaction has so inflated customers' expectations that it is difficult to meet them. Other companies have found that their tactics have been matched by their competitors, and they can't find the competitive edge. The shifting desires, demographics, and needs of consumers have made it difficult for companies to accurately predict customers' attitudes and respond to their expectations. Based on such factors, companies need to move beyond customer satisfaction and focus instead on establishing measurable customer loyalty.

2.4 customer loyalty

Loyalty is a philosophy of leadership that seeks mutually beneficial management of the relationship between the enterprise and its stakeholders (Finnie and Randall, 2002 ; Hart and Johnson, 1999). Higher customer retention (5%) results in a significant rise in profitability and business growth. The higher profitability derives from the basic profit associated with all activities, a rise in sales to each customer, economies generated as a result of improved reciprocal understanding between the customer and business, new customer recommendations by loyal customers, and bigger profits resulting from the lesser tendency of loyal customers to make purchases on the basis of price alone (Reichheld, 1996).

There are three types of key principles governing customer loyalty (Bhote, 1996). First, there are the matters of ethics and uncompromising integrity, mutual trust, openness and access to information. Then, there is a need to ensure closeness to the customer, allowing the customer to "coach" the business and demonstrating true interest in the customer after the sale has been consummated. Finally, there is a need

for a high value-added business proposition and for the enterprise to plan for the unexpected and anticipate customers' future needs. These principles are linked to a set of practices that facilitate their transfer or application to the company's day-to-day operations. Practices that generate loyalty fall under a number of main headings: (a) commitment and involvement of management (in regard to key principles, loyalty-oriented action, reinforcing behaviours...), (b) internal benchmarking, (c) determination of customer needs, (d) analysis of competition's capacities, (e) measurement of customer satisfaction and loyalty, (f) analysis of feedback, and (g) ongoing improvement. It is on the basis of this set of principles (and underlying practices) that a company can build consistency that is always perceived as such by customers and employees.

Several authors have long suggested that loyalty is both attitude and behavior. In fact, Dick and Basu (1994) conceptualized it as a composite construct. Specifically, they defined loyalty as the strength of the relationship between attitude towards the target relative to available alternatives and patronage behavior. This led the authors to suggest four possible loyalty conditions by conceding that both relative attitude and repeated patronage could each be either 'high' or 'low' (see Figure 1).

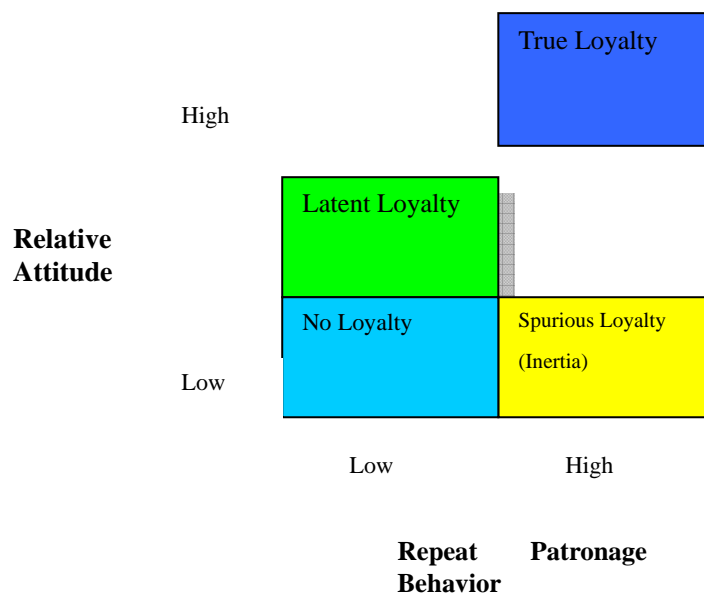


Fig1. Loyalty Conditions

'True loyalty' only arises when strong positive relative attitudes are associated with high levels of repeated patronage. 'Spurious loyalty' emerges when the customer perceives little difference between alternatives but purchases one brand more consistently than others. For instance, a customer may have patronized a particular bank for years but not because the customer finds that this bank offers superior service or value, instead, it may be that the customer perceives absolutely no differences between the bank and its competitors. In spite of the apparent loyalty, such a customer may readily switch.

3. THE IMPACT OF CORPORATE IMAGE AND CORPORATE REPUTATION ON CL

How is corporate image related to corporate reputation? A review of the past research in the field shows little empirical results except for some general statements. For example, Porter (1985) suggested that a

good reputation may help a pioneer firm build an innovative image in the industry, while Franklin (1984) proposed that corporate reputation is a global and final outcome of the process of building a corporate image. However, based on the meaning generally accepted for each concept, one observes that both corporate image and reputation are the external perceptions of the firm. The former is the firm's portrait made in the mind of a consumer, while the latter is the degree of trust (or distrust) in a firm's ability to meet customers' expectations on a given attribute.

Corporate image and reputation are thus the results of an aggregation process which incorporates diverse information used by the consumer to form a perception of the firm. Even for a consumer who has not yet had experience with the firm, these perceptions may be formed from other sources of information such as advertising or word-of-mouth. In our opinion, the emotional component of corporate image and corporate reputation may share a close relationship because of the psychological dimensions which contribute to their formation. These dimensions are manifested by the consumer's attitudes and beliefs which rely on past actions of the firm or previous experiences with the firm. In the case of services that are categorized as experience products whose quality can only be evaluated after consumption, given their intangibility, corporate image and reputation both can be used as effective means of predicting the outcome of the service production process and, perhaps, considered as the most reliable cues which signal the ability of a service firm to satisfy the customer's desires.

From the perspective of marketing, the impact of corporate image and reputation on consumer behavior is well recognized in spite of the lack of empirical evidence. Numerous authors assert that a good corporate image or reputation helps to increase the firm's sales and its market share (Shapiro, 1982), and to establish and maintain a loyal relationship with customers (Andreassen and Lindestad, 1998; Robertson, 1993; Yoon et al., 1993). A favorable store image can influence repeated patronage (Dick and Basu, 1994). In an investigation on service quality and customer loyalty in the commercial airline industry, Ostrowski (1993, p. 22) found that "a passenger's image of the carrier which is based on long-term experiences encompassing many service encounters is more important in explaining customer loyalty than is the evaluation of the current, single flight". They also argue that the consumer may consider a bad experience as an exception to his whole impression of the service provider. In addition, this study suggested a consistent and significant relationship between the reputation of the carrier and customer loyalty. Corporate reputation is viewed in the study as a dimension of corporate image.

Since the exact relationship between image and reputation is still unknown, it is relevant to examine the interactions between the constructs. Despite the fact that the formation of both corporate image and corporate reputation is essentially based on extrinsic cues and that both constructs are the results of an aggregation process by which customers describe their perceptions of the firm, the hypothesis that corporate reputation has an impact on corporate image appears consistent with the meaning of these constructs. In our opinion, there are more intangible and complex dimensions in the formation of a firm's image; therefore, the construct of image should have a higher level of abstraction than reputation which relies upon specific actions of the firm. Moreover, the estimation of a firm's reputation may be generally more personal and more reliable regarding the past experiences of customers with the firm. In this context, the formation of the concept of corporate image may require more time in its formation and may be more difficult to measure than the concept of corporate reputation. The lack of empirical results combined with the conflicting propositions on the relationships between reputation and image as well as their impact on consumer loyalty justify, therefore, the current research.

We propose to assess at the aggregate level, the main effects of corporate image and reputation as well as the influence of their interaction on customer loyalty. The analysis- takes into consideration the conceptualization of corporate image and corporate reputation as level of aggregation is carried out by means of the following model:

$$CRL = \beta_0 \text{Image} + \beta_1 \text{Reputation} + \beta_2 \text{Interaction}$$

Where CRL is the customer retention likelihood used as an assessment of customer loyalty toward the service firm. Image is the customer's perceptions of the image of the service firm. Reputation is the customer's perceptions of the reputation of the service firm, and Interaction is the interaction between

4. CONCLUSION

This result suggests that managers of service organizations should not consider exclusively intrinsic attributes in their communication strategy. These attributes are usually translated into customer satisfaction (Anderson and Sullivan, 1993; Oliva et al., 1992; Woodside et al., 1989) or service quality (Bitner, 1990; Dick and Basu, 1994; Fornell, 1992) which are considered as the predominant antecedents of customer loyalty. In service industries, the association between corporate image or corporate reputation and a company's offering is much more difficult to pin-point because of the intangibility of the service. From this perspective, other tangible characteristics, such as those of the service provider, may be used to make its image more easily discernible. In order to influence consumer behavior, service organizations should employ arguments based on contact personnel and physical environment, with the hope being that, in the eyes of the consumer, these elements constitute the benefits promised in the service transaction. For example, an airline company would emphasize the competence of its flight attendants or seat comfort as service quality indices in a strategy to create a favorable image. Service organizations should exploit the presence of contact elements in its advertising to make the intangible tangible. This is also an efficient way to create a more compelling image. In numerous services provided by banks, insurance companies, educational or professional institutions, the merchandise component is not a part of the service act. Moreover, the client's presence and participation are often required in the service delivery process. Therefore, contact elements may be considered as critical factors which determine the client's perception of the image or reputation of service organizations. Regarding corporate communication, the results of the study suggest that marketing managers should emphasize and coordinate elements of corporate reputation which is strongly significant in the creation of a favorable image.

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