

# THE EFFECT OF CORPORATE REPUTATION ON CONSUMER BEHAVIOUR AND PURCHASE INTENTIONS

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## **Abstract**

Corporate reputation is defined as stakeholder's overall assessment of a company's performance over time. It reflects multiple stakeholders' perceptions about organization's effectiveness. Companies with high reputation create competitive advantage and are more likely to influence customers' behaviors and attitudes.

The main purpose of this study is to analyze Volkswagen's reputation after the emission scandal from the perspective of Turkish customers and also explain the effects of Volkswagen reputation on customer intentions and outcome variables as customer satisfaction, customer loyalty, customer trust, repurchase and word of mouth. For this purpose, research questionnaire was designed by researchers to measure reputation and customer variables and understand the interactions. 253 Volkswagen customers and noncustomers have participated in the research. Results show that corporate reputation has a positive influence on both customer intentions and outcomes.

**Keywords:** Volkswagen, reputation, customer-based reputation, customer intentions, and customer outcomes

## **1. INTRODUCTION**

Corporate reputation is an intangible asset that enhances value creation and sustains competitive advantage for a long period. Reputation is among the intangible assets that is extremely hard to imitate, which turns it into a valuable source of competitive advantage (Alsop, 2004). It is overall and final attribution of multiple stakeholders (Fombrun, 1996). It is the sum of past and present actions and results of the organizations that describing the capacity to obtain valuable results for various stakeholders (Castro et al., 2006; Dortok, 2006). Reputation is emerged over time through communication and takes for a long time to build (Brewer and Zhao, 2010). Companies can benefit from favorable corporate reputation in many ways such as attracting investment and high qualified employees, having a cost advantage, enhancing new product development and having more loyal customers (Leaniz and Rodriguez, 2016).

Research has mainly focused on the effects of corporate reputation on financial performance (Roberts and Dowling, 2002; Sabate and Puente, 2003; Eberl and Schwaiger, 2005). Also, the effects of corporate reputation on customer behavior are discussed in many studies (Keh and Xie, 2009; Walsh, Mitchell and Jackson, 2009; Helm, Eggert and Garnefeld, 2010; Bartiowski and Walsh, 2011; Walsh and Beaty, 2007). Corporate reputation research generally found out that personal experience has the greatest impact on the reputation formation (Ragas et al., 2014).

If organizations want to manage their reputation, they should focus on its behavioral effects. This is because customers are one of the most particular stakeholders that can evaluate a company's reputation (Helm, Eggert and Garnefeld, 2010). Corporate reputation is regarded as a multidimensional construct, with a wide range of stakeholders (Walsh, Dinnie, and Weidmann, 2006). The current study focuses on the corporate reputation as perceived by only customers. Customer-based reputation (CBR) is defined as "the customer's all evaluation of an organization based on his or her reactions to the its' goods, services, activities, interactions with the firm and/or its representatives and/or known corporate activities" (Walsh and Beatty, 2007, p. 129). In this study, in order to measure reputation, we used and adapted Walsh and Beaty's customer-based reputation scale.

Some researchers propose that the corporate reputation can be an independent variable, others acknowledge that it can be an outcome variable. In this study, we suggest that Volkswagen's damaged reputation with negative events can create behavioral effects; therefore, we accept that reputation will be the antecedent. The first section introduces the Volkswagen crisis and effects on its reputation, and the results of customer-based reputation on customer behavior intentions and outcomes are examined. In other section, the research model and analysis are presented.

### ***Volkswagen's Reputation***

The Volkswagen scandal results in the recall of 11 million cars worldwide, causing damage to the company especially in Europe where it has a strong brand reputation (Georgevski and AlQudah, 2016). Moreover, VW had to spend \$16.5 billion to address environmental, state and owner claims in the United States (Csmonitor, 2016).

All scandals cause a loss of confidence, trust and give harm to the integrity of businesses (Hermans and Cruz Caria, 2016). This scandal reveals unethical practices at Volkswagen and damages its brand image around the world. Therefore, new CEO Matthias Muller stated that the most urgent task is to win trust with transparency (Blackwelder et al., 2016).

However, according to the Reputation Institute Report on Volkswagen' Trust, Volkswagen is not doing enough to gain back its stakeholders' trust and doesn't take right steps to implement the reputation risk management. Also, it is mentioned in the report that products, citizenship, and governance are shown as the most important reputation indicators for Volkswagen (Reputation Institute, 2016).

***Effect on Reputation on Customer Behavior Intentions and Outcomes***

From the marketing literature perspective, the effect of corporate image and corporate reputation on consumer behavior is well defined. For loyalty, researchers found that corporate image and reputation have a positive relationship with customer loyalty. Yoon, Guffey, and Kijewski (1993) find a positive relationship between corporate reputation and purchase intention .

A good corporate reputation helps to increase the company's sales performance and its market share, and it also contributes to developing a loyal and trustable relationship with customers (Nguyen and Leblanc, 2001). Customers are also expected to see companies with high reputations as having developed and implemented high products and service quality (Hess, 2008). Davies and Chun (2002) propose that corporate reputation and customer satisfaction are positively related. Ganesan and Sridhar (2016) also found that corporate reputation has effect on the customer satisfaction.

Therefore, we hypothesize that

*H1: Corporate reputation has a positive impact on customer behavior (intentions, satisfaction, commitment, and trust).*

Companies with high reputations will enhance a positive word of mouth, while companies with low reputations may suffer from a negative word of mouth (Walsh et al., 2009). Corporate reputation is viewed as an attitude that has a direct impact on the intention to perform certain behaviors (Gatti, Caruana and Snehota, 2012). The more positive the corporate reputation of Volkswagen is, the higher the purchase intention of customers for Volkswagen's products is. This also strengthens the positive word of mouth.

Therefore, we also hypothesize that

*H2: Corporate reputation has a positive impact on customer behavior outcomes (word of mouth and repurchase)*

**2. RESEARCH MODEL**

This study investigates to enhance our understanding of the role of Volkswagen's reputation for customer behavior. To address these issues, the study sets out to test the relationships and illustrated in Figure 1. In research model, customer-based corporate reputation is determined as the independent variable, as a result of reputation, customer behavioral intentions and outcomes are dependent variables.

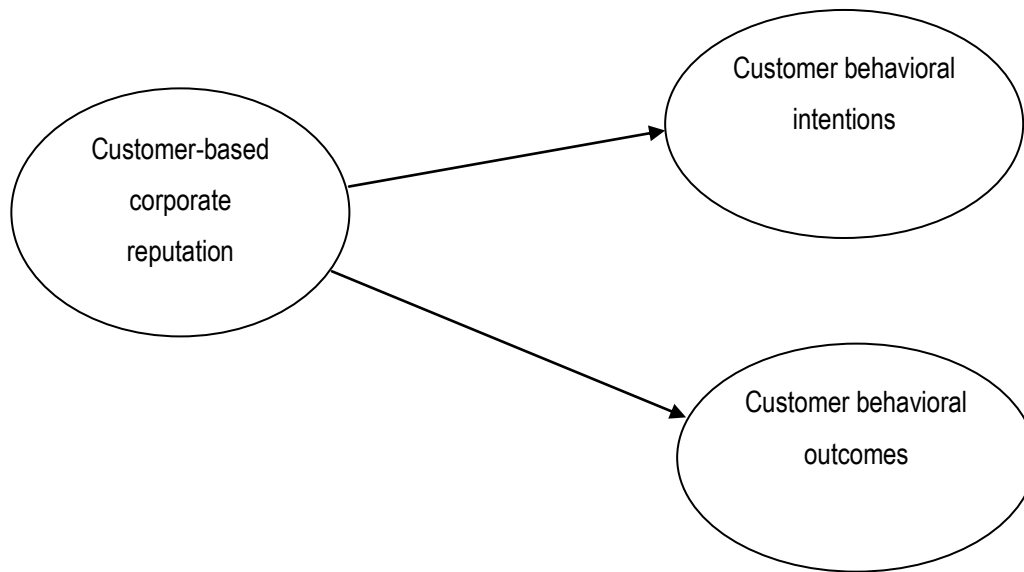


FIGURE 1 - RESEARCH MODEL

### 3. METHOD

#### 3.1. Sample and Data Collection

Survey data gathered from a sample of 253 Turkish customers and non-costumers help test the hypotheses. Data collection lasted approximately three weeks. A total of 290 questionnaires were returned, 253 of which included complete responses. We chose the Volkswagen Company because of the importance of its reputation crisis in related year. Complete sample characteristics are provided in Table 1.

TABLE 1 - SAMPLE CHARACTERISTICS

	n		n
<b>Customer</b>		<b>Age in years</b>	
Yes	104	18-29	99
No	149	30-39	91
<b>Gender</b>		40-49	41
Women	77	50-59	19
Men	176	60 and above	3
<b>Level of Education</b>		<b>Years as VW customer</b>	
Less than High school	36	1-5	65
High school	28	6-10	28
Undergraduate degree	53	11 and above	11
Postgraduate degree	136		

The majority (39%) are aged 18-29 years old. 104 of them are Volkswagen customers and 176 participants are men. 189 of them have undergraduate and postgraduate degrees. 62.5% of Volkswagen customers have been using for 1-5 years of Volkswagen cars.

### **3.2. Measures**

All measures were adopted or adapted from previous studies in this area. To provide word clarity, we conducted translation and back-translation. The variables were measured using five-point, likert-type, multiple-item scales anchored with "Strongly Disagree" (1) and "Strongly Agree" (5). Data was gathered via a web-based survey using a convenience sample. The online questionnaire was accessible via a link that was sent to Volkswagen's customers and noncustomers via e-mail.

#### *Corporate reputation measurement*

Corporate reputation was measured using the scale adopted from Walsh and Beatty (2007) via 27 items. The items selected for this study are grouped into five dimensions, namely customer orientation, a good employer, reliable and financially strong company, product and service quality and social and environmental responsibility. Also, we asked participants that How they think about Volkswagen's reputation in general?

#### *Behavioral intentions measurement*

Behavioral intentions (repurchase and word-of-mouth) and behavioral outcomes (satisfaction commitment and trust) were both measured via eight-item scales. These items were derived from Maxham and Netemeyer (2002), Morgan and Hunt (1994)'s studies.

## **4. ANALYSIS AND RESULTS**

### **4.1. Factor Analysis and Reliability Results**

Corporate reputation instrument consists of 27 items. At the end of the factor analysis of customer-based corporate reputation for Volkswagen customers, 3 items omitted, 24 items remained and 5 factors appeared. These factors were named as customer orientation and service quality, social and environmental responsibility, reliable and financially strong company, having high performance, good employer. Five factors explained %83,123 of variance. Cronbach alpha values were ,934; ,931; ,921; ,799 and ,886. Factor loadings, variances, Cronbach alpha values, Bartlett test result and KMO value are shown in Table 2.

TABLE 2 - FACTOR ANALYSIS AND RELIABILITY RESULTS OF CUSTOMER-BASED CORPORATE REPUTATION FOR CUSTOMERS

<b>Factor</b>	<b>Items</b>	<b>Factor Loading</b>	<b>Factor Variance</b>	<b>Cronbach Alpha</b>
<b>Customer orientation and service quality</b>	Treat customer courteously	,769	65,636	,934
	Treat customers fairly	,754		
	Takes customer rights seriously	,698		
	Stands behind the services that it offers	,647		
	Concern with customer needs	,645		
	Offers high-quality products and services	,610		
	Seems to care about all of its customers regardless of how much money they spend with them	,519		
<b>Social and environmental responsibility</b>	Have environmental responsibility	,877	6,917	,953
	Support environmental projects	,858		
	Obey ethical rules	,719		
	Report right information	,677		
	Be courteous	,655		
<b>Reliable and financially strong company</b>	Develops innovative services	,759	4,459	,921
	Seems to have a clear vision of its future	,671		
	Doing well financially	,645		
	Strong and reliable company	,602		
	Looks like it has strong prospects for future growth	,591		
	Having good investments	,528		
<b>Having high performance</b>	Having market opportunities	,822	3,282	,799
	Appears to make financially sound decisions	,747		
	Tends to outperform competitors	,660		
<b>Good employer</b>	Looks like a good company to work for	,797	2,830	,886
	Seems to have good employees	,774		
	Seems to be well-managed	,569		
<b>Total variance: 83,123</b>				
<b>Kaiser-Meyer-Olkin</b>	,925			
<b>Bartlett's Test</b>	Approx. Chi- Square	3001, 987		
	df	276		
	Significance	,000		

At the end of the factor analysis of customer-based corporate reputation for Volkswagen noncustomers, 4 items omitted, 23 items remained and 5 factors appeared. These factors were named as reliable and environmentally responsible, a good employer and service quality, financially strong, customer orientation and market orientation. Five factors explained 83,123% of the variance. Cronbach alpha values were ,951; ,919; ,865; ,916. (for market

orientation dimension, Cronbach alpha value is not calculated because of single item). Factor loadings, variances, Cronbach alpha values, Bartlett test result and KMO value are shown in Table 3.

TABLE 3 -FACTOR ANALYSIS AND RELIABILITY RESULTS OF CUSTOMER-BASED CORPORATE REPUTATION FOR NON-CUSTOMERS

<b>Factor</b>	<b>Items</b>	<b>Factor Loading</b>	<b>Factor Variance</b>	<b>Cronbach Alpha</b>
<b>Reliable and environmental responsible</b>	Obey ethical rules	,877	55,816	,951
	Support environmental projects	,865		
	Be courteous	,828		
	Report right information	,798		
	Have environmental responsibility	,798		
	Strong and reliable company	,597		
	Seems to be well-managed	,591		
<b>Good employer and service quality</b>	Seems to have good employees	,796	8,717	,919
	Looks like a good company to work for	,765		
	Have good leadership	,754		
	Offers high-quality products and services	,645		
	Stands behind the services that it offers	,635		
	Develops innovative services	,573		
<b>Financially strong</b>	Doing well financially	,820	5,795	,865
	Looks like it has strong prospects for future growth	,791		
	Having good investments	,675		
	Create new marketplace	,617		
<b>Customer orientation</b>	Treat customer courteously	,731	3,938	,916
	Treat customers fairly	,713		
	Concern with customer needs	,661		
	Protect high standards to customers	,632		
	Takes customer rights seriously	,603		
<b>Market orientation</b>	Having market opportunities	,768	3,380	-
	<b>Total variance:</b>	<b>83,123</b>		
<b>Kaiser-Meyer-Olkin</b>	,938			
<b>Bartlett's Test</b>	Approx. Chi- Square df Significance	3064,805 253 ,000		

TABLE 4 - RELIABILITY ANALYSIS OF CUSTOMER BEHAVIOR INTENTIONS AND OUTCOMES

Dimensions	Reliability
Customer Behavior Intentions- 3 items	,948
Customer Outcomes- 5 items	,903

Cronbach alpha values of customer intentions are found as, 948 and of customer outcomes as, 903 (Table 4).

Means, standard deviations, and correlations between variables were given in Table 5. The highest mean score belongs to the dimension of customer-based reputation variable, named as a reliable and financially strong company. And then being a good employer is one of the most important indicators for customers. When we evaluate the overall score of customer-based reputation, we found that the mean score is 3.64/5. It was also found that mean scores of behavioral intentions and outcomes are 3.67 and 3.62. We also asked customers for the evaluation of Volkswagen's reputation directly. When we analyze the correlation results, all dimensions and subdimensions were related to each other. The highest correlation is between customer-based reputation, and customer-orientation and service quality. The relation of behavioral intentions with customer-based reputation is higher than the relation between behavioral outcomes with customer-based reputation. Direct reputation with 1,22/3 is negatively related with all dimensions and subdimensions.

TABLE 5 - DESCRIPTIVE STATISTICS AND CORRELATION RESULTS

Scale	Mean	Sd	1	2	3	4	5	6	7	8
<b>1. Customer-based reputation</b>	3,64	,92	1							
<b>2.Customer orientation and service quality</b>	3,36	1,13	,939**	1						
<b>3.Social and environmental responsibility</b>	3,22	1,23	,889**	,984**	1					
<b>4. Reliable and financially strong company</b>	3,80	,95	,943**	,866**	,797**	1				
<b>5. Having high performance</b>	3,79	,88	,779**	,617**	,561**	,738**	1			
<b>6.Good employer</b>	3,75	,96	,843**	,713**	,634**	,770**	,670**	1		
<b>7. Behavioral intentions</b>	3,67	1,12	,664**	,599**	,746**	,704**	,629**	,652**	1	
<b>8. Behavioral outcomes</b>	3,62	1,06	,617**	,552**	,609**	,752**	,616**	,664**	,915**	1
<b>9. Direct Reputation<sup>1</sup></b>	1,22	,50	-,603**	-,563**	-,515**	-,610**	-,423**	-,533**	-,555**	-,600**

\*\* p<0,01 \*p<0,05

#### 4.2. Hypothesis Testing

The hypotheses were tested by using regression analysis. Table 6 and Table 7 present the results of the relationships proposed in the conceptual model presented in Figure 1.

<sup>1</sup> Direct reputation was measured with one item as "How do you think VW's reputation in general?"



TABLE 6 - REGRESSION ANALYSIS RESULTS

<b>Dependent variable:</b>			
CustomerOutcomes			
<b>Independent variables:</b>	<b>Beta</b>	<b>tvalue</b>	<b>pvalue</b>
Customer orientation and service quality	,365	,881	,381
Social and environmental responsibility	,066	,195	,846
Reliable and financially strong company	,216	1,729	,087
Having high performance	,175	2,564	<b>,012</b>
Good employer	,178	2,262	<b>,026</b>
<b>R=,900; R<sup>2</sup>=,810; F value=82,697; p value=0,00</b>			

The results indicate that dimensions of a customer-based reputation as having high performance and good employer have a significant influence on customer outcomes ( $\beta=175$ ,  $p=,012$  and  $\beta=178$ ,  $p=,026$ ). Therefore, the H1 hypothesis was accepted.

TABLE 7 - REGRESSION ANALYSIS RESULTS

<b>Dependent variable:</b>			
Customer Intentions			
<b>Independent variables:</b>	<b>Beta</b>	<b>t value</b>	<b>p value</b>
Customer orientation and service quality	,792	1,583	,117
Social and environmental responsibility	-,359	-,878	,382
Reliable and financially strong company	,184	1,219	,226
Having high performance	,042	,504	,615
Good employer	,245	2,581	<b>,011</b>
<b>R=,850; R<sup>2</sup>=,723; F value=50,617; p value=0,00</b>			

Only one variable of customer-based corporate reputation which is being a good employer has an impact on customer intentions. Thus, the H2 hypothesis was accepted.

## 5. DISCUSSIONS AND IMPLICATIONS

This study investigates the influence of customer based corporate reputation on customer behavior intentions and outcomes. For this purpose, customers and noncustomers of Volkswagen Company were selected due to the emission scandal that the company faced. The role of reputation on customer behavioral intentions and results can be discussed by taking into account the study findings.

The general results indicate that companies with favorable reputations turn to customer commitment, trust, word of mouth and re-purchase as we explained in the theoretical framework. Supporting these ideas, this study found that Volkswagen Company with high reputation can influence its customers' perceptions and evaluation about itself. By this way, it can build its reputation with customer's positive reactions to the company.

The general reputation score is higher than the average score. Moreover, a direct reputation that we measure about customer's general evaluation of Volkswagen reputation score is very high. We can accept that Volkswagen customers in Turkey trust the company, and they mostly believe that Volkswagen is reliable and financially strong. The emission scandal cost Volkswagen billions of dollars and severely damaged its reputation. Yet, it seems that Turkish customers don't pay attention to Volkswagen's bad reputation news. One of the main reasons for this situation is that Turkish customers may not be aware of the news about company's brand values and reputation. Media literacy rate is low for automobile users in Turkey. As a result, Volkswagen's brand value is still high for Turkish customers.

In addition to above-mentioned points, it was found in this study that customer outcomes and intentions are shaped by having high performance and being a good employer for employees. Nowadays, in order to have a strong reputation, a company should not only meet its customers' needs and requirements, but it should also treat its current and potential employees as its internal customers.

It needs to be emphasized that this research focuses only on customers' perspectives about Volkswagen's reputation. In further studies, related primary stakeholders of Volkswagen should be investigated to have a full understanding of the concept of reputation. Another limitation is that our research emphasizes the direct effect of corporate reputation on customer behavioral intentions and outcomes.

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