

# Consumers' Willingness to Pay for Corporate Reputation: The Context of Airline Companies

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## ABSTRACT

*Prior studies of corporate reputation have looked broadly at the relationship between corporate reputation and corporate performance. In this paper, we take a more fine-grained approach. In particular, we investigate consumers' willingness to pay for organizational attributes that have historically predicted corporate reputation, in this case, for airlines. Using a policy-capturing or scenario-based design, we determine how airline customers choose between a series of ticket options. The findings provide two important insights into corporate reputation. First, they demonstrate that consumers are willing to pay more for a better corporate reputation. Secondly, they demonstrate that consumers base their willingness to pay on organizational attributes, but that they do so primarily through corporate reputation. These findings suggest that corporate reputation research has an important place within our understanding of corporate strategy.*

*Corporate Reputation Review* (2007) **10**, 189–200.  
doi:10.1057/palgrave.crr.1550052

**KEYWORDS:** *corporate reputation; policy capturing; willingness to pay*

## INTRODUCTION

Corporate reputation studies have traditionally reflected the perspectives of investors,

analysts and competitors. These studies consistently find reputation to be strongly correlated to organizational performance (Roberts and Dowling, 2002). Most of these studies have been conducted on macro-firm-level data. We do not, however, have a good understanding of how reputation influences micro decisions, in particular consumers' decisions and their willingness to pay. This is a key link in understanding why and how corporation reputation matters.

In the study presented in this paper, we examined the determinants of consumers' reputation perceptions of airlines and the prices they were willing to pay for airline tickets. Using a policy-capturing data collection design, we manipulated five organizational predictors of airlines' reputations: return on equity (ROE), the endorsement of the US Federal Aviation Administration (FAA), and airline size, age and crash history. We selected these predictors based upon their relevance to the airline industry, and their use in previous research on the determinants of corporate reputation and legitimacy. We validate these findings with survey data on actual airlines.

To determine if consumers' perceptions of corporate reputation might affect subsequent airline revenues, we also investigated the influence of corporate reputation on

consumers' willingness to pay for airline tickets. In what follows, we posit that airline characteristics affect consumers' willingness to pay through their perceptions of the airlines' reputations, with reputation serving as a mediating variable (Baron and Kenny, 1986).

Our findings make two key contributions. First, they quite pointedly demonstrate that consumers value good reputations among airline companies. This adds further support to the relationship argued and supported in previous research between reputation and performance at the organization level, but it does so by offering insight into how individual customers' perceptions of reputation translate into better firm performance. Secondly, the findings show that while consumers are willing to pay more for positive organizational attributes such as financial performance, they do this primarily by forming reputation perceptions. We describe the theory, methods and results that ground these findings below.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Organizational Characteristics

To assess consumer perceptions of firm reputation, we rely upon definitions of reputation and legitimacy. Corporate reputation refers to the overall assessment of a firm's relative standing among other firms, in the eyes of key stakeholders (Fombrun, 1996). Suchman (1995: 574) defines legitimacy as a 'generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions'. Both are elements of the organizational image construed by firm stakeholders (Fombrun, 1996; Dowling, 2001). In this paper, we consider the role of five key organizational characteristics in influencing consumers' perceptions of the reputations of airline companies and their willingness to pay. The airline company attributes on

which we have focused our attention are financial performance, endorsements, organizational age, organizational size and recent crash history. We argue that these organizational attributes affect consumers' reputation perceptions, and it is this aggregate perception of reputation, as opposed to the individual attributes, that affects consumers' willingness to pay for airline tickets.

### *Financial performance*

The relationship between firm performance and corporate reputation has been well documented (Roberts and Dowling, 2002). In most cases, the relationship is, however, framed in the terms of 'does a good reputation pay?'. In other words, does a good reputation predict good financial performance? Previous research has argued that there is a strong halo effect between a good financial performance and a good reputation (Fombrun and Shanley, 1990; McGuire *et al.*, 1990). Strong financial performance may signal to consumers that the firm is well managed and is selling a valuable product.

### *Endorsements by legitimate outsiders*

Awards and prizes, certification and accreditation, and endorsements legitimate organizations because the overt association with a seemingly legitimate body confers legitimacy to the agent firm (Meyer and Rowan, 1991; Scott, 1991). Rao (1994) found that auto manufacturers that had won multiple speed and reliability contests, which acted as endorsements of their engineering capabilities, improved the firm's reputation and chances of survival. Endorsements are seen as objective evaluations of the firm's actions and, therefore, serve to rationalize the myths associated with the organization. We test this relationship in the present research.

### *Organizational age*

Stakeholder inferences about the age or longevity of firms can also determine repu-

tation. Although there has been considerable research into the liability of newness, many of these arguments are developed at the population level (Freeman *et al.*, 1983; Singh *et al.*, 1986; Stinchcombe, 1965). There is relatively little known about consumers' responses to organizational age. Older organizations may have more favorable reputations than newer firms for several reasons. First, older organizations may be more visible than other firms, and relatedly, have had more time to implant and reinforce their corporate images (Gatewood *et al.*, 1993). Secondly, an organization's age may signal to outsiders that the firm's operations must be legitimate and well run, by virtue of their prolonged existence. In addition, older organizations are more deeply embedded within their organizational field (Stinchcombe, 1965; Hannan and Freeman, 1984), which may insulate the firm from failure (Baum and Oliver, 1991; Perrow, 1979; Zucker, 1988), and connect the firm's reputation with that of its reputable partners.

### *Organizational size*

Corporate reputations are at risk not only from newness but also from smallness (Freeman *et al.*, 1983; Wholey and Brittain, 1986). Small firms may be at a disadvantage because constituents assume that firms can become large only if they are legitimate and successful. In other words, a firm's large size signals to constituents that they 'must have been doing something right'. Also, much like the argument with organizational age, larger firms tend to be more visible, and hence find it easier to solidify corporate image in potential consumers' minds. Larger firms are more likely to be embedded in networked relationships because of the diversified nature of their business, so constituents assume that larger firms are legitimate and reputable by virtue of their trading partners and alliances.

### *Recent airline crashes*

In the airline industry, a single fatal crash can be harmful to an airline's reputation, even if the affected airline's overall safety record is better than its competitors. A crash that is viewed as a crisis situation has the potential to severely damage a firm's reputation and legitimacy, and the extent of the damage depends in part upon the attributed causes of the crisis and how the firm manages the problem (Dutton *et al.*, 1994; Greening and Gray, 1994). While recent crash history is arguably less of an organizational attribute than the other four determinants, it has the advantage of permitting us to assess the relative magnitude of other more generic attributes to one that is specific to this industry. A crash raises questions in the minds of constituents about the acceptability of an airline's business and aviation practices, as well as the fitness of the airline as a corporation.

In summary, the attributes above suggest the following relationship with corporate reputation:

**H1:** *Consumers will attribute a more positive reputation to firms that have better financial performance, stronger endorsements, larger organizational size, greater longevity and fewer recent airline crashes, than to firms that have worse financial performance, weaker endorsements, smaller size, less longevity and more recent crashes.*

### **Reputation and Consumers'**

#### **Willingness to Pay**

A good corporate reputation should provide valuable returns to the firm, including the attraction and retention of higher-quality employees, higher mobility barriers among firms and more reputable suppliers because of assumed lower monitoring costs (Antunovich *et al.*, 2000; Dowling, 2001; Fombrun, 1996; Roberts and Dowling, 2002; Rynes, 1991). In the case of consumers,



however, they are also willing to pay more for products associated with a strong corporate reputation. In particular, a strong corporate reputation suggests that the products and services being offered by the firm are of higher quality (Carmeli and Tishler, 2005) and that the firm is responsible and will treat its customers well (Brammer and Millington, 2005). As a result, we predict:

**H2:** *There will be a positive relationship between corporate reputation and the amount consumers are willing to pay for the product.*

An important question is whether reputation acts as the conduit for the valued organizational attributes, or whether the organizational attributes directly influence a consumer's willingness to pay. Answering this question informs managerial decision and reputational research.

If consumers first form reputation perceptions, then organizations interested in charging premium prices might want to devote resources to enhancing their overall reputations. On the other hand, if consumers price firm characteristics directly, it might be more efficient for organizations to identify the firm characteristics for which consumers are willing to pay, and then work on attaining and communicating information on those characteristics. It becomes more important, then, for firms to address the base line attributes, rather than the formative construct of corporate reputation.

How consumers incorporate firm-level information into their willingness to pay judgments also offers insights into the reputation literature. To date, the importance of reputation as a unique and useful construct has rested on arguments about the returns to reputation (eg stock market performance) and its potential as a source of competitive advantage (Fombrun, 1996; Roberts and

Dowling, 2002). If reputation also acts as a mediating variable, this is additional support for reputation as a separate and unique construct. Moreover, consideration of reputation as an intervening variable has the potential to illuminate the process by which firm characteristics and actions are translated into tangible economic benefits. Based on Hypotheses 1 and 2, we deduce that assessments of reputation should mediate the five organizational characteristics and consumers' willingness to pay. Our final hypothesis is the following:

**H3:** *Consumers' reputation perceptions of the organization will mediate the relationship between organizational characteristics and consumers' willingness to pay for the organization's products.*

## METHODS

### Overview

We examined the effects of airline characteristics on consumers' reputation judgments and consumers' willingness to pay for airline tickets. We used a policy-capturing design to present hypothetical descriptions of airlines in which we manipulated five predictors of corporate reputation: financial performance, endorsement of the FAA, airline size and age, and whether the airline recently experienced a crash. After reading each scenario describing a hypothetical company, study participants indicated their perceptions of the reputation of the airline company, and how much they would be willing to pay for a ticket to visit a friend.

### Sample

Our sample consisted of students in part-time Master of Science in business administration (MS) and Masters of Business Administration (MBA) programs at a large,

urban university in the southeastern United States. The vast majority of the students had worked full-time. We received 71 usable surveys of the 90 surveys that were randomly distributed to students in five graduate classes, for a response rate of 79 per cent. Each individual read and responded to eight descriptions of hypothetical airlines as part of the survey process, for a total number of observations of 568 (71 individuals  $\times$  8 descriptions).

The survey process was as follows. Subjects were told that they were to receive a survey on consumers' choices of airlines. Prior to reading the scenarios, they received a definition of the FAA and its responsibility for airline safety in the US (we refer to the FAA in the endorsement manipulation), as well as a definition of ROE (we refer to ROE in the financial performance manipulation). Subjects were told that they were to pretend that they wanted to purchase an airline ticket to visit a very close friend, and that they should read and consider each airline description as a separate airline.

### Measures and Scenario Factors

We created the corporate reputation dependent variable from subjects' responses to four items ('This airline has a good reputation', 'This airline performs well compared to other airlines', 'This airline is legitimate' and 'This airline operates in an acceptable manner') using a seven-point graphic rating scale anchored by 1 = *strongly disagree* to 7 = *strongly agree*. This measure is consistent with both recent and original conceptualizations of corporate reputation (Barnett *et al.*, 2006; Fombrun, 1996). The reliability between these items was high (0.89 coefficient alpha), and the items were combined to form the dependent variable. The willingness to pay dependent variable was based upon subjects' responses to a question following each scenario, 'How much would you be willing to pay to purchase a round trip ticket from

Atlanta to Philadelphia on this airline? [A competitive round trip fare, with two-week advance purchase is \$200]'

The five independent variables were dichotomous (Hoffman, 1960), with one value representing a base case scenario and the other a worst case scenario. The worst case values were modeled on ValuJet (now known as AirTran) after it experienced a tragic crash in May 1996. At the time of data collection for this study in 1997, ValuJet Airlines had severe reputation and legitimacy problems (Schiavo, 1997). The base case values reflect the average of ValuJet's primary competitors, namely, the largest four airlines flying into the major US city in which our study participants were located. Policy-capturing studies are more effective when manipulations are realistic (Graham and Cable, 2001).

The first independent variable, the financial performance of the airline, was indicated by ROE. In half of the scenarios, we described an average ROE of 32 per cent (average ROE of ValuJet's primary competitors). The other level of ROE described in the scenarios was - 47 per cent, the ROE of ValuJet Airlines one year after their May 1996 crash.

The second independent variable was endorsement. We expect that airlines in violation of FAA rules would experience less favorable reputations, while those in compliance would have enhanced reputations. The FAA is charged with monitoring the operations of the airlines, and most Americans trust that the airlines are safe to fly if the FAA says that they are (Schiavo, 1997). Half of the scenarios describe how FAA inspectors found no serious safety problems with the airline. In the other half of the scenarios, we describe how FAA inspectors found serious problems with the airline's operations in the previous year. We based the wording of this level of the endorsement manipulation on FAA communications to ValuJet Airlines following their May 1996 crash (FAA, 17 June, 1996).

The third manipulated independent variable was airline size, which was indicated by the number of passengers served in a year. Again, two levels of this variable were constructed. In half of the scenarios, we described airlines that served 48 million passengers in the last year (average of ValuJet's primary competitors). In the other half of the scenarios, the airline described served six million passengers per year (ValuJet's projected 1996 passengers served).

We also manipulated organizational age. In a similar fashion to airline size, we averaged the ages of the largest four carriers at the international airport in the city in which the data were collected (52 years old), which we gathered by calling the public relations offices of these firms. For the below-average size figure, we took the age of ValuJet airlines at the time of its May 1996 crash (3 years old).

Finally, to indicate an organizational crisis, we used an airline crash. In half of our scenarios we stated in the last year, one of the airline's jets had crashed and there were no survivors. In the other half of the scenarios, we stated that there had been no crash in the last year.

### Survey Design

All respondents were given the following general instructions: 'You want to purchase a round trip airline ticket from Atlanta to Philadelphia to visit a very close friend. You are considering purchasing a ticket on several different airlines. You will be presented with descriptions of these airlines. Please respond to the questions with the scales provided'.

Every possible combination of the five organizational characteristics was used, permitting assessments of the relative importance placed on each factor by respondents (Hoffman, 1960). This created 32 discrete scenarios ( $2^5$  design). The scenarios and organizational characteristics within scenarios were presented in random order. Each

study participant read and responded to eight of the 32 total scenarios, or one block of eight scenarios. The study design is described in more detail in Table 1.

### Data Analyses

Because each of our 71 respondents reported eight reputation evaluations, it was necessary to use a fixed effects, or repeated measures analysis for our data (Pedhazur, 1982). As such, we created dummy variables representing each of our study participants, and included the dummy variables as controls in our regression analyses.

To test our hypotheses, we performed three sets of regression analyses. First, we regressed reputation perceptions on the five predictors of reputation, and the dummy variables for each individual respondent, in

**Table 1: Survey design**

Column 1	Column 2	Column 3	Column 4
00000	11000	10000	01000
01100	10100	11100	00100
11010	00010	01010	10010
10110	01110	01001	11110
11001	00001	00101	10001
10101	01101	10011	11101
00011	11011	11111	01011
01111	10111	00110	00111

Source: Plan 6.5, Cochran and Cox (1957: 235)

Key: 0, low amount of variable or unfavorable variable; 1, high amount of variable or favorable variable

Order of variables: Financial performance, endorsement, age, size and crash information

Example: Scenario 00000 is the first scenario presented in Table 1. The first 0 refers to a poor financial performance, the second 0 refers to FAA inspectors finding serious problems with the airline, the third 0 refers to small size of the airline, the fourth 0 refers to the young age of the airline and the last 0 indicates that the airline experienced a crash within the last year.

Note: Each subject received one column of this study design in the survey packet

order to evaluate Hypothesis 1. To assess whether reputation predicted consumers' willingness to pay (Hypothesis 2), we regressed the dependent variable of willingness to pay on reputation perceptions. Finally, to determine if reputation acts as a mediator (Hypothesis 3), we examined the increase in  $R^2$  and changes in the firm characteristics' coefficients that result from adding reputation as an independent variable to a model of the five characteristics predicting willingness to pay (Baron and Kenny, 1986; Cohen *et al.*, 2002). With this last step we complete the recommended steps to test for mediation (Baron and Kenny, 1986), which requires demonstration of the following: (a) firm characteristics are related to reputation, (b) firm characteristics are related to willingness to pay and (c) when reputation is added as an independent variable to 'b', then the firm characteristics no longer predict willingness to pay.

To cross-validate our findings on hypothetical airlines, we asked respondents to indicate their perceptions of the characteristics of eight *real* airlines, evaluate the reputations of these airlines and to indicate their willingness to pay for tickets on these airlines. Data on the real airlines were analyzed with repeated measures analysis, similar to the

hypothetical data. One-half of our subjects read the hypothetical airline scenarios first, and one-half evaluated the real airlines first.

## RESULTS

Table 2 reports correlations among our dependent and independent variables, as well as their means and standard deviations. By design, correlations among each of the five predictors are 0 (not reported in Table 2) and had a mean and standard deviation of 0.5. We do not report correlations for the individual dummy variables; these are available from the authors. As expected, our reputation and willingness to pay variables are highly correlated (0.57;  $p < 0.001$ ), but are not identical.

Table 3 reports regression results for the dependent variable of reputation on the five reputation predictors. The 70 individual dummy variables are not provided in the table in order to conserve space. In support of Hypothesis 1, the five predictors significantly explained reputation judgments (all  $p < 0.001$ ). The endorsement of the FAA had the largest impact on reputation perceptions, followed by crash status and financial performance.

Table 4 reports regression results for the dependent variable of willingness to pay.

**Table 2: Correlation matrix of reputation and willingness to pay with predictors**

	(1)	(2)	Means (SD)
1. Reputation (1–7 scale; 7=best reputation)			4.05 (1.37)
2. Willingness to pay for airline ticket (\$s)	0.57***		\$138 (\$54)
3. Financial performance (return on equity) (1=32%; 0=–47%)	0.30***	0.12**	0.50 (0.50)
4. Endorsement of FAA (1=yes, 0=no)	0.45***	0.33***	0.50 (0.50)
5. Size of airline (1=48 million passengers; 0=6 million passengers)	0.19***	0.15***	0.50 (0.50)
6. Age of airline (1=52 years old; 0=3 years old)	0.10*	0.09*	0.50 (0.50)
7. Crash in last year (1=no; 0=yes)	0.30***	0.23***	0.50 (0.50)

Significance levels: \* $p < 0.05$ , \*\* $p < 0.01$  and \*\*\* $p < 0.001$

Model A of this table contains results for the five reputation predictors and individual dummy variables. Model B represents results

for the five predictors and dummy variables, but with reputation added to the model. Hypothesis 2 received strong support in that individuals' reputation perceptions were highly related to their willingness to pay for airline tickets ( $\beta = 0.46; p < 0.001$ ) (Model B).

**Table 3: Regression of reputation perceptions on organizational characteristics**

<i>Independent variables</i>	<i>Standardized coefficients (0.03 standard errors)</i>
Financial performance	0.29***
Endorsement of FAA	0.45***
Size of airline	0.19***
Age of airline	0.11***
No crash within last year	0.30***
Dummy variables for individual survey participants included	Yes
Adjusted $R^2$	0.60
F for model	12.21***
Number of observations	568

Significance levels: \*\*\* $p < 0.001$

Finally, analysis of reputation as a mediator generally supported Hypothesis 3 (Baron and Kenny, 1986). Since the addition of the reputation variable reduced the coefficients for financial performance and airline age to nonsignificant figures, we conclude that reputation fully mediated the relationship between these variables and willingness to pay, in support of Hypothesis 3 (Table 4, Model B). That is, consumers incorporate information on airline financial performance and airline age into a reputation indicator prior to deciding how much they are willing to pay for tickets. Reputation partially mediated the relationship between the endorsement of the FAA, airline size and crash status, and the dependent variable willingness to pay in that coefficients for these three variables were substantially reduced but

**Table 4: Regression of consumers' willingness to pay on organizational characteristics and reputation perceptions**

<i>Independent variables</i>	<i>Model A – standardized coefficients (standard errors)</i>	<i>Model B – standardized coefficients (standard errors) – reputation added</i>
Financial performance	0.12***	-0.03
Endorsement of FAA	0.33***	0.11***
Size of airline	0.14***	0.04*
Age of airline	0.09***	0.04
No crash within last year	0.22***	0.05***
Reputation		0.46***
Dummy variables for individual survey participants included	Yes	Yes
Adjusted $R^2$	0.62	0.71
F for model	13.59***	19.21***
Number of observations	568	568
Change in $R^2$ from reputation		0.09***

Significance levels: \* $p < 0.05$  and \*\*\* $p < 0.001$

Note: All standard errors were in the range 0.02–0.04

remained significant, in the presence of the reputation variable. In other words, endorsement, size and crash status have both an indirect and direct effect on consumers' willingness to pay for tickets.<sup>1</sup> Examination of our hypotheses with structural equations modeling supported all of the hypotheses, and provided even stronger support for reputation as a mediator, with reputation fully mediating all five organizational characteristics.<sup>2</sup>

Results on the actual airlines validated most of the hypothetical scenario results. All five reputation predictors significantly predicted consumer reputation perceptions (all  $p < 0.001$ ). The predictors, however, differed in magnitude from the hypothetical airlines in that financial performance, the endorsement of the FAA and airline size all had the largest impact on reputation. Airline age and crash status affected reputation to a lesser degree. Actual airline results also provided support for reputation perceptions as a significant predictor of consumer willingness to pay for tickets. Support for reputation as a mediator was consistent with the hypothetical airline results in that the effects of financial performance and age on ticket prices were fully mediated by reputation, and the effects of the endorsement of the FAA and airline size were partially mediated by reputation. In contrast to the hypothetical results, crash status was not mediated by reputation, a result that may be due to the rarity of crashes among actual airlines.

## DISCUSSION

Firms are increasingly seeking to establish and maintain favorable corporate reputations, with the goal of leveraging reputation for competitive advantage. The paucity of information available on consumers' assessments of corporate reputations, however, constrains firms' abilities to manage their reputation. From a theoretical perspective, we are still in the early stages of understand-

ing the determinants of individual reputation judgments and the processes by which corporate reputation influences corporate financial performance.

In this study, we examined organizational characteristics that may affect the reputation perceptions of airline consumers. As predicted, all five variables examined were found to be strong determinants of corporate reputation. The endorsement of the FAA had the largest influence on reputation perceptions, which suggests that the FAA provided independent confirmation of an airline's worthiness. This finding is consistent with the organizational legitimacy literature, which emphasizes the value to firms of independent, third-party endorsement (Elsbach, 1994). The effect of endorsement on reputation was substantial, with consumers willing to pay \$36 more for a plane ticket if the FAA endorsed it for operational safety.<sup>3</sup> Consistent with previous research on corporate reputation, the financial performance of the firm was a strong predictor of reputation perceptions, this time among consumers.

Fombrun and Shanley (1990) highlight the difficulties of demonstrating the financial gains from an enhanced reputation. They ask of reputations '... how sound an investment, how much of an asset?'. In this study, individual-level perceptions and willingness to pay data permit us to estimate the tangible effects of reputation. Results suggest that consumers are willing to pay more for tickets on airlines with more favorable reputations. More specifically, unstandardized coefficients for Model B indicate that for each one-point increase in airline reputation, consumers are willing to pay \$18 more for a plane ticket. This is a consequential effect that will be magnified to the extent that firms can increase their reputational lead over their competitors.

Moreover, our results indicate that consumers summarize information about firms in the form of a reputation judgment, which

then influences their purchase decisions. The effects of financial performance and firm size on ticket prices are indirect: their impact occurs only through the reputation variable. The other three predictors appear to operate primarily through the reputation construct but also operate directly on ticket prices. For example, a comparison of the effect sizes for endorsement in Model A and Model B (Table 4) indicates that approximately two-thirds of the endorsement effect on ticket prices occurs through the intervening variable of reputation, and one-third of the effect operates directly on consumer price decisions.

The fact that corporate reputation mediates the relationship between firm characteristics and consumer willingness to pay has managerial implications. At the most basic level, there will be no positive reputational or revenue returns to firms whose potential consumers are unaware of their positive characteristics such as the endorsement of the FAA. Marketing managers can heighten the reputation, and thereby the economic returns, by emphasizing the characteristics that are associated with their firms' reputation and on which their airline compares favorably relative to their competitors. Managers should be aware that most ticket revenue attributed to their firm's reputation occurs through consumer perceptions. Firms may be able to improve these returns through a focused reputation management plan. Although some of these variables, such as firm age, cannot be manipulated, others can be. Ideally, managers would strategically manage these valuable firm characteristics, as well as create a consistent corporate reputation (Fombrun, 1996).

#### LIMITATIONS AND FUTURE RESEARCH

We recommend that future research examine reputation predictors in other industries and types of firms, to build on our initial findings in the airline context. As such, our findings

should only be generalized primarily to passenger airlines, since the policy-capturing manipulations and research context pertained to the airline industry. Further, the airline industry may be particularly sensitive to specific elements of corporate reputation, such as organizational crises and endorsements of safety.

In this study, there was a trade-off between the experimental nature of our policy-capturing design, which permitted strong inferences about the influence of our independent variables, and the setting for our study. Results should be interpreted with some caution since we manipulated realistic, yet hypothetical firm characteristics, and because we were unable to examine actual ticket purchases. Confirmation of many of our findings with our data on real airlines helps mitigate this concern; but ideally, future research would examine reputation perceptions prior to *actual* ticket purchases on real airlines. Another issue is that results from our sample of MBA students may not generalize to the typical airline consumer, or to other groups (eg retirees). We suggest that future studies on this topic be conducted in field settings and with diverse samples.

There may also be some concern with the causal inferences we make about the relationship between reputation and willingness to pay, because of a risk of common method bias, and relatedly, because we collect data at one point of time only. While a causal interpretation is consistent with relevant theory, the relationship between these two variables may be weaker than what we found. In addition, it is possible that consumers make reputation and willingness-to-pay decisions simultaneously or in reverse order to what we have hypothesized.<sup>4</sup> That is, consumers may decide how much they are willing to pay for a ticket (eg premium price) and then justify it in terms of the reputation of the airline on which they will be flying (eg excellent reputation). A final suggestion

is that future research could refine the relationship between corporate reputation and reputational capital across levels of analysis (Barnett *et al.*, 2006).

## NOTES

- 1 The analyses reported in Tables 3 and 4 were also performed on a subset of observations ( $n=539$ ), which excluded scenarios for which consumers indicated they would pay \$0 for an airline ticket. Results were substantially the same to the results reported in this paper.
- 2 We rely upon the regression analysis in the tables because our repeated measures design violates the assumption of structural equations modeling that observations are independent. We report these additional results as evidence of the robustness of our results.
- 3 Based upon unstandardized regression results.
- 4 Our structural equation results that tested an alternative model of willingness to pay as a mediator of reputation perceptions did not, however, find full mediation, nor was the relationship between these two variables as strong as when reputation predicted willingness to pay.

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