

# Impact of Corporate Governance on Corporate Reputation

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**Abstract:** The Paper deals with Impact of corporate governance on corporate reputation. The aim of this paper is to show that corporate governance factor influence on corporate reputation and to test the relation between corporate governance and corporate reputation. The results have direct implications for the management of corporate governance mechanisms by shareholders which should take into account its role in the creation and maintenance of corporate reputation. The research explains, the necessity for Better Corporate Governance to enhance the Corporate Reputation. The Main reason for the study shows the Impact of corporate governance affects corporate reputation development.

**Keywords:** Corporate Governance, Corporate Reputation.

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## 1. INTRODUCTION

Corporate governance mechanisms seek to protect investors and maximization of corporate value, as well as increasing confidence on capital markets. Previous empirical research has investigated corporate governance relationship with information quality, earnings management or internal controls (Klein, 2002; Cohen et al., 2004; Davila & Peñalva, 2006; , 2008). According to Monterrey Mayoral & Sánchez Segura (2008), corporate governance practices are appropriately designed, it will guarantee the integrity of the accounting function, which is essential to avoid earnings management. Both academics and regulators have claim for the need of improving corporate governance controls. The corporate governance mechanisms seek to enhance confidence on capital markets, companies will have incentives to improve them voluntarily. It is expected that companies should have better governance practices, a better image and are more valued in terms of reputation. Reputation builds competitive advantage (Weigelt & Camerer, 1988; Fombrun & Shanley, 1990; Hall, 1993) and improves financial performance (Roberts & Dowling, 2002; Fernández & Luna, 2007). Several authors have pointed out that the ultimate responsibility for the achievement and maintenance of a good reputation lies on the Board of Directors and the CEO (Kitchen & Laurence, 2003; Dowling, 2004; Tonello, 2007).

Reputation is the most important aspects of banks as a study intend to understand the factors affects the reputation of the bank. The research intend to study the some key factors of the corporate reputation. The objective of this paper is to test the Impact of Corporate Governance on Corporate Reputation.

## 2. REVIEW OF LITERATURE

A company achieves its competitive advantage when it succeeds to implement the strategy of value creation which is not possessed by its competitors on the market or in the industry. The sustainable competitive advantage may be achieved by disposing mechanisms that protect their competitive advantage from imitation. The established sustainable competitive advantage is the basis for the realization of superior organizational performance, survival and development. The theory of strategic management suggests that positive reputation may create competitive advantage and influence corporate performance .Market efficiency determines the role of corporate reputation, and on an efficient market, the reputation plays the role of strategic property. There is a problem of identifying strategic resources in comparison to non-strategic ones, therefore it is best to say that strategies resources are the ones that significantly contribute to creating sustainable competitive advantages. According to Fombrun corporate reputation consists of four characteristics credibility, reliability, responsibility and trustworthiness (Fombrun 1996).

Harrison argues that organizations recognize the significance of corporate reputation in business goals achievements and in the function of competitive advantage maintenance. The corporate reputation is a part of company's assets along with tangible property, in balance sheet, workforce, social property (relations with suppliers, relations with consumers, local community and regulative institutions), and environmental property (energy, material resources, clean water, air and local environment; see Harrison 2007).

According to Widerman and Buxel (2005), corporate reputation helps the companies to get good employees, attract consumers, and increase consumers' loyalty, which may be implemented as a factor of competitive performance and useful in obtaining the capital. Without good reputation it is very difficult for a company to survive or to make progress. The key role of corporate governance has to be the improvement and protection of corporate reputation.

Kitchen and Laurence (2003) have proven that reputation of a CEO and reputation of a company are linked to each other. Good reputation is impossible to maintain without internal organization support.

Argenti and Druckenmiller, 2004 define corporate reputation as 'a collective presentation of all participants image, built through the time and based on programs of company identity, its performance and perceptions of its behaviour'.

Good reputation comes when consumers prefer the products and services of a company to available products of the competition that are similar in prices and quality. Good reputation is the key condition of stakeholders' support to a company in competitive relations, and it is an important factor of value of organization on the financial markets. In spite of being intangible, the researches show that reputation provides sustainable competitive advantage. Corporate reputation may be divided by following factors. These are company's ethics, employees, financial performance, leadership, management, social responsibility, and focus on consumers, quality, reliability, emotional appeal, and communication. (Barnett, Jermier, and Lafferty (2006)

Corporate reputation includes basic components, such as image and Identity. Identity is determined as a perception of the company's nature by its employees and managers; the image is a perception of external parameters of the company. Reputation of corporation may be observed in the sphere of awareness (image and perceptions) Building Corporate Reputation through Corporate Governance includes general awareness of stakeholders, without judgments. Stakeholders are included in the evaluation of company status (expectations and opinions). At the end, reputation is observed as a property that consider it as something valuable and important for a company are incorporated. Company identity consists of characteristics which are considered by employees to be of a central significance for a company because they make a company unique in comparison to other companies, and at the same different to some permanent characteristics that link the past and present to the future of a company (Cornelissen and Harris 2001).

Besides that, the image is very important in the process of shaping consumers' expectations and for better perception of service quality. The image is a filter that affects the perception of company service operations. Positive image of an organisation with a perfect service that communicates clear values leads to positive attitudes of employees fall. This enables a company to attract such workforce that might be in short supply on the labour market. Good and recognisable image does not happen by chance. In order to build it, the procedure requires creativity and firm determination of corporate management.

Corporate image and corporate reputation management have two primary aims. The first is the creation of 'the intentional image' in the minds of all key constituents in a company. This means creating a widespread name recognition between target stakeholders, accompanied by spontaneous identification. The second aim in the managing process is the creation of positive reputation in the minds of key stakeholders. A prominent corporate image may be developed through coordinate image building campaign. This includes a formal communication system: name, logo, corporate advertising and public relations. On the other side, building a good reputation requires more than effective communication efforts. It demands extraordinary identity that can be modelled only by consistent performance throughout many years. Coordinated communication programs can, however, strengthen and improve company's reputation. Company competitive advantage depends on its distinctive capabilities, strategic Excellency and market structure.

Improvements of information transparency may be a good way of raising reputation and regaining trust. New corporations try to build up their reputation with the intention to avoid being labelled as untrustworthy by shareholders and stakeholders. Reputation, dialogue and experience are the basis for trust (Swift 2001).

Therefore the intention of reputation management strategy is to give more information consistent to corporate activities within reasonable time. Good reputation is the result of consistent informative signal within a certain period of time. Some management tasks linked to reputation are: transparency, solutions for the problems of signal misperception, and the emission of consistent information, and prevention of moral hazards that might undermine building and maintaining good reputation. (Dentchev and Hene 2003).

Gillan and Starks (2003) point out that financial institutional investors like investment companies may play active role whereas banks and insurance companies, as traditional institutional investors may play a passive role in monitoring. Corporate reputation may be strengthened by a program of relations with consumers – a research with the aim to know key stakeholders, to measure their strengths and weaknesses, and fill in the gap between internal reality and stakeholders' perception.

State shareholders have a primary goal announced in state participation in company operations, based on strategic significance. By state participation and state ownership we get greater openness, which is positive for transparency. Since managers may also be the owners of the shares in companies in which they work as managers, greater participation of managerial ownership may lead to defeating the monitoring mechanism. There are several aspects that are linked to company reputation, and that should be managed by the management. These are, according to Persey et al. 2004). The ability to make dialogue that helps a manager to make cooperative relations with a great range of external participants which are based on trust. Secondly, there is the capability of avoiding critical reputation dangers like corporate silence. Thirdly, there is the capability that allows managers to influence external officials (advocacy). Last but not least let us mention the capability of crisis communication that enables managers to interact with influential participants in unpleasant conditions a company may find itself in (Pursey et al. 2004).

**Conceptual Frame work:** Figure 1 shows the theoretical frame work of study by depicting the influence of corporate governance on Corporate Reputation. This frame works indicates corporate governance as Independent variable and corporate reputation as dependent variable. Transparency, Accountability, Fairness, Social Awareness, Discipline, Independence and responsibility are dimensions to measure the corporate governance as a construct variable.

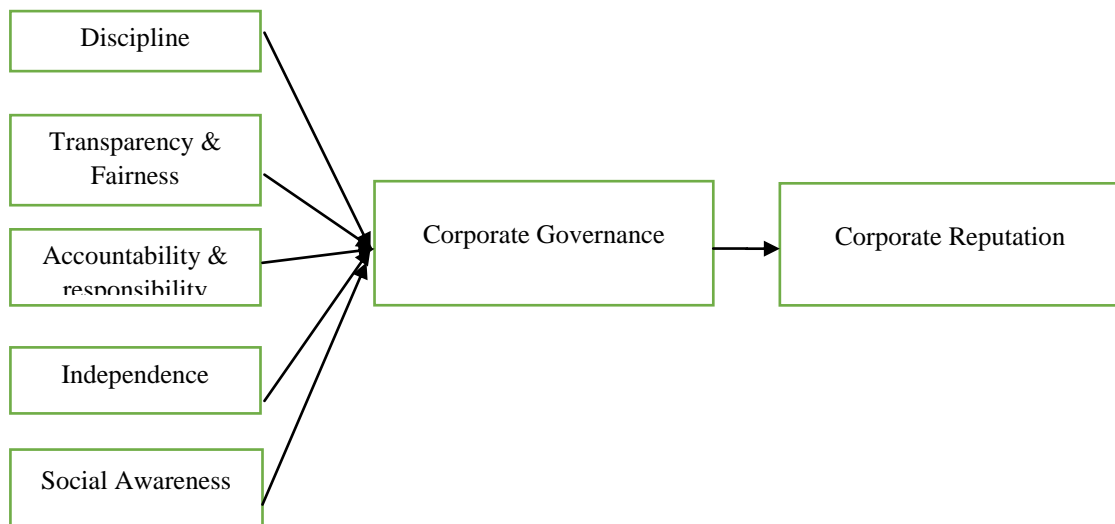


Figure 1: Conceptual Frame work of study

### 3. DATA AND METHODOLOGY

#### Data:

Questionnaire to measure the corporate governance and corporate reputation have been adopted from CLSA 1 (37 Items). And the Reputation Quotient (RQ) 2 (20 items) scale adopted from Fombrum et.al 2000. This study uses five point and seven Point scale Likert scale questionnaire respectively, it carried from “strongly disagree” toward “strongly agree” with number “1” to “5” for Governance and 1 to 7 for Reputation quotient, as instrument for data collection. The Instrument used to measure the factors influence corporate governance and Measure corporate reputation.

1. This questionnaire has been adopted from Credit Lyonnais Securities Asia (CLSA) to measure the corporate governance. Further it is amended according to the situation. This research is not using exact questionnaire but in amended form

2. Fombrun, C. J., Gardberg, N. A., Sever, J. M. (2000). The Reputation Quotient: A multi takeholder measure of corporate reputation.

The researcher collected data from banking and Finance professionals working in Chennai. Chennai is the third largest city of India and is considered the Key locations of finance activities. Research focuses more on the importance of sample size because it is critical and vital in obtaining the sufficient statistical outputs. Normality of data and estimation methods both require a standard minimum sample size which is recommended to be 10 participants for each parameter (Schreiber et al. 2006). (Sivo et al, 2006), Garver and Mentzer (1999), and Hoelter, D. R. (1983) This research study is consisted of 550 respondents from the total 600 distributed.

This study use the Principle components Method (PCM) to measure factors from different items on each construct like good corporate governance and Corporate Reputation with respect to their reliable scales. To get the optimal weight from each variable related to a factor PCA has been for this study in form to get linear combination of observed variable related to a factor.

$$PC = a_1(X_1) + a_2(X_2) + \dots + a_n(X_n)$$

eq. 1 where PC = principle component  $a_n$  = Regression weight for observed variable  $n$   $X_n$  = Subject's corresponding score on observed variable  $n$ .

Varimax method has been used in this study to get components. To check the sampling adequacy for data analysis Kaiser-Meyer –Olkin (KMO) test has been used. This study also use Bartlett's test of sphericity to insure whether data used in this study is ample or not. Principle component is retained by using KMO criterion. This research is using factor loading in order to check that how much a variable loads into its corresponding factor. Reliability is measured through value of Cronbach's alpha for all scales which suggest that its value should be greater than .60 in order to get internal consistency. Regression analysis is employed to find out the impact of corporate governance on corporate reputation among banking investor and customer in Chennai

**Analysis:**

Corporate governance and Corporate Reputation is measured with help of 37 and 20 questionnaires respectively for each construct variable in this study. whereas Cronbach's alpha test is used to determine the reliability and inter item consistency of the constructs used in the present study i.e. corporate governance and corporate reputation. Table 1.1 depicts that values of Cronbach's alpha for Corporate Reputation, discipline, transparency, Independence, Accountability, Responsibility, Fairness and social awareness are .951, .789, .818, .866, .737,.661,.864,.788 for each respectively.

**Table 1.1: Reliability of Measurement**

<b>Construct</b>	<b>Valid N</b>	<b>Numbers of Items</b>	<b>Cronbach's Alpha</b>
<b>Discipline</b>	<b>550</b>	<b>5</b>	<b>.789</b>
<b>Transparency</b>	<b>550</b>	<b>6</b>	<b>.818</b>
<b>Independence</b>	<b>550</b>	<b>6</b>	<b>.866</b>
<b>Accountability</b>	<b>550</b>	<b>5</b>	<b>.737</b>
<b>Responsibility</b>	<b>550</b>	<b>4</b>	<b>.661</b>
<b>Fairness</b>	<b>550</b>	<b>7</b>	<b>.864</b>
<b>Social awareness</b>	<b>550</b>	<b>4</b>	<b>.788</b>
<b>Corporate Reputation</b>	<b>550</b>	<b>20</b>	<b>.951</b>

PCM is used for factor analysis with help of Varimax rotation method to assure construct validity. Principle components method result is shown in table 1.2, 1.3, KMO and Bartlett's are used to measure sampling adequacy test whether the adequacy of data is applicable for factor analysis or not. Table 1.2 represents the results of KMO and Bartlett's tests which shows that our data were sufficient for factor analysis. Values of KMO for Corporate Reputation, Discipline, transparency, Independence, accountability, Responsibility, fairness and social awareness are .933,.812,.849,.868,.751,.679,.767 correspondingly. Values ranging from .6 to .9 show KMO's value are good to superb (Hutcheson and Sofronie, 1999). Relationship between two construct variables is investigated by Bartlett's test. Factor analysis can be conducted if items of a construct are mutually related to each other.

Table 1.2: KMO and Bartlett's Test

Construct	No. of Items	KMO Measure of Sample adequacy	Bartlett's Test of Sphericity Chi-Square	Bartlett's Test of Sphericity Sig.
Discipline	5	0.812	757.592	0.000
Transparency	6	0.849	1017.863	0.000
Independence	6	0.868	1446.624	0.000
Accountability	5	0.751	852.237	0.000
Responsibility	4	0.679	316.997	0.000
Fairness	7	0.853	1673.517	0.000
Social awareness	4	0.767	624.554	0.000
Reputation	20	0.933	8673.446	0.000

To study that how each item is loaded into its relevant principal component we use table 1.3 for the factor loading of each item. Straub et al (2004) suggest us that value of each item in factor loading should be at least 0.40 into it relative principle component.

Table 1.3: Factor Loadings

Variable	Item	Factor Loading
Discipline	Company has issued a "mission statement" that explicitly places a priority on Good Corporate governance	0.661
	Senior Management sticks to clearly defined core businesses, No diversification into an unrelated area in last 3 years.	0.737
	Over the past 5 years, it is true that the company has not declared any warrants against trespassers.	0.714
	Over the past 5 years, it is true that the company has not built up disciplinary action report.	0.830
	Company's Annual Report includes a section devoted to the company's performance in implementing corporate governance principles.	0.752
Transparency	Management has disclosed three or five-year performance report.	0.660
	Public announcement of results are available have been no longer than two working days of board meeting.	0.716
	The reports are clear and informative.(Based on perception of analyst.)	0.669
	Company consistently discloses major and market sensitive Information punctually.	0.830
	Analysts have good access to senior management. Good access implies accessibility soon after results are announced and timely meetings where analyst are given all relevant information and are not misled.	0.751
	Company has an English language web-site where results and other announcements are updated promptly (no later than one business day).	0.727
Independence	The chairman is an independent, non-executive director.	0.796
	Company has an executive or management committee which is substantially different from members of the board and not believed to be dominated by referrals.	0.840
	Company has an audit committee. it is chaired by a perceived genuine independent director.	0.764
	Company has a remuneration committee. It is chaired by a perceived genuine independent director.	0.840
	External auditors of the company are in other respects seen to be completely unrelated to the company.	0.611
	The board includes no direct representatives of banks and other large creditors of the company. (having any representatives is a negative.)	0.774
Accountability	The board members and members of the executive/management committee substantially different. (i.e. no more than half of one committee sits on the other.)	0.604
	There are any foreign nationals on the board.	0.844
	Full board meetings are held at least once a quarter.	0.855
	Audit committee nominates and conducts a proper review the work of external auditors.	0.055
	The audit committee supervises internal audit and accounting procedures.	0.871



Responsibility	The board/senior management have made decisions in the recent years seen to benefit them at the expense of management, has the company been seen as acting effectively against individuals responsible and corrected such behaviour promptly, i.e. within 6 months	0.726
	Over the past five years, there were open business failures or misbehaviour; responsible persons were appropriately and voluntarily punished.	0.742
	There is any controversy or questions over whether the board and/or senior management take measures to safeguard the interests of all and not just the dominate employees.	0.730
	There are mechanisms to allow punishment of the executive/management committee in the event of mismanagement.	0.613
Fairness	It is true that there have not been any controversy or questions raised over any decisions by senior management in the past 5 years where upper management are believed to have gained at the expense of middle or lower management.	0.789
	All the employees have the access to their appraisal record.	0.806
	Criticism/suggestions methods are easily available to all stake holders / employees.	0.766
	All necessary information for appraisal criteria are made available prior to evaluation	0.818
	It is true that there have been no questions or perceived controversy over whether the company has issued transparency report or not.	0.629
	Over the past five years, it is true that total director's remuneration has not increased faster than employees	0.784
Social Awareness	Over the past five years, it is true that total director's remuneration has not increased faster than employees.	0.595
	Company has an explicit (clearly worded) public policy statement that emphasizes strict ethical behaviour: i.e. one that looks at the spirit and not just the letter of the law.	0.702
	Company has a policy/culture that prohibits the employment of the under-aged.	0.786
	Company has an explicit equal employment policy.	0.823
Corporate Reputation	Company is explicitly environmentally conscious	0.811
	I have a good feeling about this Bank	0.606
	I admire and respect this Bank	0.551
	I trust this bank	0.554
	This Bank stands behind its Products and services	0.585
	This Bank develops innovative products and services	0.497
	This Bank offers high Quality products and services	0.568
	This Bank offers products and services that are a good value for money	0.530
	This Bank has excellent Leadership	0.777
	This bank has clear vision for its future	0.832
	This Bank recognize and takes advantage of market opportunities	0.777
	This bank is well Managed	0.811
	This Bank looks like good bank to work with	0.836
	This bank looks like that would have a good employees	0.834
	This Bank supports Good cause	0.838
	This Bank is an environmentally responsible bank	0.795
	This Bank maintains high standards in the way its treats People	0.797
	This Bank has strong record of profitability	0.776
This Bank Looks like a Low risk Investment	0.746	
This Bank tends to outperform its Competitors	0.791	
This Bank looks like with strong prospects for the future growth.	0.803	

Table 1.4: Regression Analysis Corporate Reputation

Variable	Coefficient	Standard Error	t-Ratio
Constant	0.968	0.178	9.584
Discipline	0.995	0.029	34.737
Transparency	0.581	0.063	12.352

<b>Independence</b>	<b>0.568</b>	<b>0.060</b>	<b>10.976</b>
<b>Accountability</b>	<b>0.597</b>	<b>0.051</b>	<b>11.706</b>
<b>Responsibility</b>	<b>0.529</b>	<b>0.079</b>	<b>10.769</b>
<b>Fairness</b>	<b>0.379</b>	<b>0.101</b>	<b>3.745</b>
<b>Social awareness</b>	<b>0.502</b>	<b>0.078</b>	<b>10.046</b>

Tables 1.4 show the results of regression analysis. Impact of corporate governance on Corporate Reputation is significant. The regression analysis shows that the effect of discipline, fairness, Transparency, accountability, Responsibility and Social Awareness is higher than discipline variable with values of .379 to .597 each respectively.

**Table 1.5: Statistics on Corporate Reputation**

<b>R2</b>	<b>Adj. R2</b>	<b>F-statistics</b>	<b>Prob. (F-statistics)</b>
<b>0.839</b>	<b>0.704</b>	<b>481.189</b>	<b>0.0000</b>

However and discipline have significant effect on Corporate Reputation as individuals. Value of adjusted R2 (.704) shows that the corporate governance related to Fairness And Transparency, discipline , Accountability ,independence , responsibility ,and Social awareness, shows 70 % effect on Corporate reputation . F test (F-statistics= 481.189), P= 0.000 shows that our model of corporate governance and Corporate Reputation is good fit because effect of independent variables is jointly significant.

**Limitations:**

The resources and time are the reasons for a limited number of respondent included in the research sample. In future researches it is necessary to make a detailed study using more scientific and effective means, such as Nationalised Bank, NBFC's and International Banks for discussions .

**4. CONCLUSIONS**

From the research high level of awareness and responsibility in recognising the role of corporate governance and the significance of integration of corporate governance into corporate strategy Companies do fully understand that better corporate governance is a condition for corporate reputation development. Companies do completely understand the nature and significance of corporate reputation and its key role in the achieving sustainable competitive advantage. The role of corporate reputation should be of the utmost importance in increasing the numbers of investors. Though the majority of companies and consumers share the opinion that companies are liable to disclose their internal corporate information to public, the discipline, Fairness & transparency has strong governance control are recognised as significant factors in corporate reputation.

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