Part V: Other Consequences of Corporate Reputation

It is often said that good reputations are powerful signals that can help a company get better ratings by analysts, enable premium product prices, and attract better employees. However, empirical evidence proving these assumptions is scarce. The New York conference provided contributions highlighting some of these effects.

Do Corporate Reputations Influence Security Analyst Earnings Forecasts? An Empirical Study
James J. Cordeiro, SUNY at Brockport
Rakesh B. Sambharya, Rutgers University-Camden

‘Tough Talk’ and Market Leaders: The Role of Overt Signaling and Reputation-Building Behaviors in Sustaining Industry Dominance
Walter J. Ferrier, University of Kentucky

Hitch your Corporate Wagon to a CEO Star? Testing Two Views about the Pay, Reputation, and Performance of Top Executives
James B. Wade, Joseph F. Porac, Timothy G. Pollock, Department of Business Administration, University of Illinois at Urbana-Champaign
James R. Meindl, State University of New York at Buffalo

Strategic Alliances and Firm-Based Legitimacy
Paul Olk, University of California-Irvine
Peter Smith Ring, Loyola Marymount University

Product Announcements and Corporate Reputations
Raghu Garud, New York University
Joseph Lampel, St Andrews
Do corporate reputations influence security analyst earnings forecasts? An empirical study

James J, Cordeiro, State University of New York at Brockport
Rakesh B. Sambharya, Rutgers University-Camden

INTRODUCTION
We find that security analyst five-year earnings growth forecasts are related to both ‘financial ends’ factors of interest to stockholders and to ‘capababilities and strategic means’ factors of interest to other organizational stakeholders for 303 US firms in 1994–95. These findings have implications for stakeholder management approaches and fit in with the growing body of research that seeks to illuminate the linkage between corporate reputation and firm performance.

Recently, there has been a surge of interest in investigating the usefulness of corporate reputation in helping firms secure competitive advantage (eg, Fombrun and Shanley, 1990; Brown and Perry, 1994; Fryxell and Wang, 1994; Fombrun, 1996). While the social processes by which reputations are jointly constructed by firms and their environments are also of potential interest, much less work has been carried out in this area. One of these social processes is signal refraction via institutional intermediaries such as security analysts, governmental agencies and consumer advocates specializing in the assessment of corporate performance outcomes (Fombrun and Rindova, 1994). This article develops and tests the hypothesis that security analysts — key players in the signal refraction process — use corporate reputation factors of interest to both stockholders, and (separately) factors of interest to other organizational stakeholders when generating their earnings performance forecasts. Data from 303 US firms in 1994 and 1995 supports this hypothesis.

BACKGROUND
Past research in strategic management has typically relied on stock market and accounting measures of corporate performance. Both of these measures, however, are subject to significant limitations. Accounting measures, for example, are retrospective, ignoring future performance. In addition they ignore risk, and are subject to manipulation by management under the GAAP framework. While stock market performance measures do account for risk and are prospective, they are ‘noisy’ in that they are subject to industry- and economy-wide influences. They are also of primary interest to the firm’s stockholders, and can conflict with, or be unrepresentative of, the interests of the firm’s other stakeholder groups. These groups are increasingly important in strategic management research (Freeman, 1984; Donaldson and Preston, 1995; Preston and Sapienza, 1990).

A recent body of literature promotes security analyst earnings forecasts as an important supplemental measure of firm performance in the strategic management context (Cordeiro, 1994; Cordeiro and Sarkis, 1997; Puffer and Weintrop, 1991; Sambharya, 1995). These forecasts represent the collective judgments of knowledgeable analysts who closely monitor a firm and its rivals within an industry,