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The Role of Corporate Reputation in the Stakeholder Decision-Making Process

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Although it is widely accepted that corporate reputation influences organization-stakeholder interactions, there is no theoretical framework that conceptualizes this aspect in stakeholders’ decision-making processes for establishing various forms of relationships with a firm. By adopting an interdisciplinary approach, this article provides a theoretical model that explains the role corporate reputation has in the process through which stakeholders decide to establish relationships with a firm. It is argued that the stakeholder decision-making process for exchange with a company is based on several exchange rules: corporate reputation, social legitimacy, pragmatic legitimacy, and exchange benefits. The article concludes with a case study of James Hardie Industries in Australia, which illustrates the function of the proposed conceptual model.

Keywords: stakeholders; institutional theory; corporate reputation; corporate citizenship; decision making

There is a general consensus that corporate reputation is a valuable intangible asset that needs to be managed as it influences stakeholders’ perceptions and preferences of companies as employment and investment opportunities, as community members, and as suppliers of products and/or services. As a shorthand evaluation about a firm, it signals the ability of a company to deliver valued outcomes to all of its stakeholders (Fombrun & Van Riel, 1997; Wartick, 1992). Therefore, it enables companies to charge premium prices for their products and/or services, it enhances customer and employee willingness to enter into exchange relationships with the firm, and it can even reduce companies’ operating costs as it provides leverage in negotiations with suppliers, creditors, and investors. It also gives companies greater latitude to act in their own context as their expertise and goodwill is
less likely to be questioned by external publics such as government regulatory agencies, local community members, and nongovernmental organizations (Marziliano, 1998).

Although it is widely accepted that corporate reputation influences organization-stakeholder interactions, there is no theoretical framework explaining the role of the phenomenon in the stakeholder decision-making process for establishing relationships with a firm. Through its interdisciplinary approach, this article provides a theoretical model that explains the essential role that corporate reputation plays in the process through which stakeholders decide to establish a long-term relationship with a company.

The model draws on social identity and institutional theory. First, a flowchart of the decision-making process is introduced and briefly described. The theoretical foundations of each component are presented and discussed. Next, the article explores the information sources that stakeholders use in making decisions for exchange relationships with a company. Finally, it discusses its implications for corporate reputation management. The article concludes with a brief case study of James Hardie Industries in Australia, illustrating the function of the proposed theory.

The Decision to Enter Into a Relationship With a Company: A Model of Stakeholders’ Decision-Making Processes

The primary driver of the attitude of stakeholders and their future behavior toward organizations is their direct experience with a firm (Kazoleas, Kim, & Moffitt, 2001). However, when individuals lack such experience, they use corporate reputations to differentiate between multiple relationship opportunities with organizations and to interpret the actions of entities. In that sense, the evaluation of corporate reputation is the first step in the process of deciding to enter into an exchange relationship (see Kazoleas et al., 2001, Figure 1, p. 6).

If a company is assessed as having a poor reputation, stakeholders decide not to enter into an exchange relationship with it. Alternatively, when that firm is believed to have a good reputation, stakeholders continue the decision process and look for information regarding the firm’s institutional actions.

Stakeholders use the information about the institutional actions of an entity to estimate whether it is socially legitimate. Institutional actions include everything that a company does to verify that its behavior and outcomes conform to the norms of the society in which it operates. When the
institutional actions of a company depart from the societal value system, an individual exits the decision process. Conversely, when a firm is perceived as socially legitimate, the stakeholder continues the decision-making process.
The third step of the decision-making process is the evaluation of an organization’s pragmatic legitimacy, made on the basis of perception of the fit between organizational actions and outputs and the economic standards promoted within an industry (Handelman & Arnold, 1999). Again, if the information does not provide support for the pragmatic legitimacy of the organization, an individual will end the decision process.

If an organization is believed to be pragmatically legitimate (i.e., performs in accordance with the industry standards), an individual will look for information regarding the prospective exchange relationship.

The evaluation of the benefits of a potential exchange relationship is the last level of the decision-making process. Various stakeholders have various interests in and expectations about an exchange relationship with a firm. Therefore, they may evaluate the benefits of the prospective relationship using different criteria. When these criteria are satisfied, a person will enter into an exchange with the company; when they are not satisfied, the individual will ignore the relationship opportunity.

The satisfaction with the exchange may encourage a person to make further transactions with the company. When the experience from the next transaction is negative, the stakeholder will not make further exchanges with the firm. Consumers may not make further purchases from the same firm, employees may discontinue their employment with a firm, and local communities may boycott the further development of company facilities. However, if the entity has a good reputation, the stakeholders are likely to justify their negative experience with factors external to the company and regard the transaction as a coincidence (Herbig & Milewicz, 1995). With an increase in consecutive negative experiences, the intentions of stakeholders to enter into an exchange may decrease.

After the company repeatedly meets the stakeholder’s expectations from an exchange, the stakeholder may establish a long-term relationship with a company, which can have positive implications for the firm’s reputation.

**Theoretical Foundations**

**Conceptualization of Corporate Reputation**

Corporate reputation demonstrates the ability of a company to deliver valued outcomes to its stakeholders (Fombrun & Van Riel, 1997) and reflects the business performance in multiple areas such as social responsibility, workplace environment, products and services, financial performance, governance, and management (Caruana, 1997; Fombrun, Gardberg, & Sever, 2000).
In reality, however, “one does not often say, for example, ‘this company has a good reputation,’ but rather, ‘this company has a reputation of providing good services,’ or ‘this company has a good reputation in the field of . . .’” (Groenland, 2002, p. 309). Hence, in the minds of its stakeholders, the reputation of a company is encapsulated in its performance in one specific dimension that overrides detailed information of other areas of its activities, serving as a shorthand label for the firm that assigns it into a group of entities with similar attributes. This is why when one thinks of The Body Shop, environmental responsibility is what springs to mind in the same way that Mercedes has a reputation for producing high-quality prestige cars and McDonald’s is known for consistency in service development and unhealthy food. Evidence can be found in many media reports. For example, according to The Business Week (Webb, 2002), The Body Shop has a reputation for social responsibility, according to Auto Week (Hart, 2002), Mercedes has a reputation for luxury, and according to National Post (Forgeron, 2002), McDonald’s has a reputation for cleanliness and service. Thus, although corporate reputation is usually conceptualized in the literature as the product of corporate performance in multiple areas, in everyday life it is primarily conveyed in statements and impressions about key attributes that are emblematic of the overall attractiveness of a firm to its stakeholders. In this sense, corporate reputation can be seen as a label denoting membership in a social category that allows individuals to incorporate a firm within their identity schemata and thus relate to them in the same manner that they relate to individuals and groups. Furthermore, individuals may have multiple interests in an organization and thus could be members of multiple stakeholder groups (Arnold, Handelman, & Tigert, 1996; Cable & Graham, 2000; Christensen & Askegaard, 2001; Gray & Balmer, 1998; Winn, 2001). For example, job applicants could be potential consumers for most firms (Cable & Graham, 2000). In addition, individuals may seek employment with or consider purchasing shares from a firm that operates in their community. Depending on the stake that individuals have in a firm at a certain point in time, different reputation categories may spring to their mind. For example, “Community groups could be assessing environmental issues at the same time that customers are assessing product reliability issues and owners are assessing return on equity issues” (Wartick, 2002, p. 378).

The function of corporate reputation as a category is explained by social identity theory, which postulates that to find their position in the world, people classify themselves and others into various categories based on abstractions of prototypical characteristics (Turner, 1985) that they then organize into hierarchical categorical structures (Tajfel & Turner, 1985).
The assignment of entities into categories helps individuals define themselves in the social environment by developing a sense of belonging to a group that maintains the category and facilitates their appreciation of the world by giving it an order (Ashforth & Mael, 1989). This process leads to the construction of a personal identity.

The need for identity, literally meaning “sameness” (Bottomley, 1997; Smith, 1991), lies at the core of each individual human being. It constitutes a nexus of social life and the individual’s concept of the self (Ashforth & Mael, 1989; Erikson, 1963) and provides cognitive access to the rest of the world (Poole, 1999). Identity positions people in space and time and gives them both the blueprints and the motivation for behaving (Zarkada-Fraser, 2001). In that sense, corporate reputation serves as a mechanism that allows people to distinguish between relationship opportunities and choose to interact with companies that belong to categories that are compatible with those to which the individual assigns himself or herself by using these simple categorical structures. It also enables stakeholders to define and redefine their own position in the environment by establishing relationships with organizations that belong to a desirable category. These relationships can be based on various types of exchanges with a company, such as purchasing its products or services, investing in its shares, working for it, or welcoming the establishment of its operations in the local community.

Some studies have investigated the effect of corporate reputation on consumer purchase decisions (Brown & Dacin, 1997; Landon & Smith, 1997) and investors’ loyalty (Jones, Jones, & Little, 2000). Brown and Dacin (1997) carried out three experimental studies that demonstrated that a firm’s reputation for producing quality products and its social responsibility influence the consumers’ evaluations of new products and enhance or mitigate their intention to purchase. Research in the wine business showed that industry and corporate reputation for quality influence consumer willingness to pay higher price for a product (Landon & Smith, 1997). Furthermore, it has been confirmed that companies with high reputation receive greater support from investors in times of economic crisis (Jones et al., 2000). However, there is no systematic theory explaining the stakeholder decision-making process to establish long-term relationships with an organization. It is here proposed that corporate reputation is the foundation of that process.

The Stages of the Decision-Making Process

According to institutional theory, organizations function within a given social and economic system. Organizational legitimacy denotes the public
acceptance of a company within these social and economic systems (Powell, 1991). To gain legitimacy, every entity must prove and secure the right to exist by complying with the ethical and economic standards of the society within which it operates (Dowling & Pfeffer, 1975; Maurer, 1971). Hence, organizational legitimacy is vital for the survival of newly formed entities that do not have a reputation and for the continuity of well-established organizations. As businesses depend on the provision of resources from their subordinate environment, organizational legitimacy ensures a continued flow of these necessary resources (Dowling & Pfeffer, 1975; Hinings & Greenwood, 1988; Maurer, 1971).

In general, organizational legitimacy is regarded as a function of several dimensions that involve different legitimation practices and address different environmental criteria (Aldrich & Fiol, 1994; Powell, 1991; Scott, 1995; Suchman, 1995).

These legitimation dimensions are most commonly classified as social and pragmatic. Social legitimacy indicates the conformity of an organization to given societal values and norms (Aldrich & Fiol, 1994; Dowling & Pfeffer, 1975; Powell, 1991; Scott, 1995; Suchman, 1995), whereas pragmatic legitimacy represents the conformity of an organization to the economic and legal standards promoted within the relevant industry (Aldrich & Fiol, 1994; Suchman, 1995). Although, the importance of each dimension of organizational legitimacy may vary across entities, they both are essential for organizational legitimacy (Powell, 1991).

Similar to institutional theory, the corporate citizenship literature also suggests that the long-term existence of a business depends on the fulfillment of its economic, legal, ethical, and discretionary social responsibilities (Carroll, 1989). The economic and legal obligations of firms are seen as the nonnegotiable minimum of corporate social responsibility. However, they are considered insufficient for the development of a healthy climate in which a business can operate (Lantos, 2002; Smith & Quelch, 1993).

**Social Legitimacy**

Social legitimacy suggests that companies have satisfied minimum requirements for ethical behavior (Handelman & Arnold, 1999). It means that the actions that organizations take to achieve their objectives and the outcomes of their actions are accepted as proper by the society in which they operate (Suchman, 1995).

From the corporate citizenship perspective, social legitimacy in broad terms refers to the ethical and discretionary behavior of organizations. Social
legitimacy can be seen as the result of a company’s philanthropic contributions and efforts to “avoid harm of social injuries even if the business might not appear to benefit from this” (Lantos, 2002, p. 206). However, corporate philanthropic contributions are only viable when they are intertwined with the strategic interests of organizations (Lantos, 2002; Zarkada-Fraser & Fraser, 2000) and done in areas with which the firm has some expertise (McAlister & Ferrell, 2002).

An organization’s social legitimacy influences the stakeholders’ respect, goodwill, and trust. People trust others who share their own symbols and interpretative frames as they can predict the behavior associated with those values (Zucker, 1986). Individuals respect others who possess qualities that they value, and a company’s ethical behavior in most cultures is believed to be a valuable organizational quality. In his *Ethics*, Aristotle (1976, trans.) regards goodwill as favorable disposition, that is,

undeveloped friendship, which in course of time, when it attains to intimacy, becomes friendship—but not friendship based on utility or pleasure, for these will never in fact arouse goodwill. (p. 296)

Extending these ideas to organizations, it is suggested that social legitimacy enhances stakeholder willingness to establish relationships with companies by generating goodwill, trust, and respect. Handelman and Arnold (1999) have recently empirically demonstrated that social legitimacy influences stakeholder perceptions of an organization’s pragmatic legitimacy. Furthermore, social and pragmatic legitimacy affect stakeholder intentions to establish relationships with the company. In that sense, social and pragmatic legitimacy are hierarchically organized in the stakeholder decision-making process to establish relationships with companies.

**Pragmatic Legitimacy**

Pragmatic legitimacy is based on the stakeholders’ perception of the practical value of organizational outputs (Suchman, 1995). The fit between organizational actions and outputs and the economic standards promoted within an industry influence public perception of the organization’s pragmatic legitimacy. Therefore, the concept is related to the economic performance of companies (Handelman & Arnold, 1999) and depends on the organization’s conformity to the relevant institutionally legitimate definitions of effectiveness and efficiency (Hinings & Greenwood, 1988). From
the corporate citizenship perspective, pragmatic legitimacy refers to whether companies meet their economic and legal responsibilities.¹

On the basis of the analysis of corporate reputation management and of the institutional and social responsibility perspectives, the researchers recognized three stages of the stakeholder decision-making process. First, corporate reputation determines whether stakeholders will consider and further evaluate potential opportunity for exchange relationship with a company. Second, an individual assesses the firm’s social legitimacy and, third, its pragmatic legitimacy.

Benefits of Exchange

Consumer behavior research suggests that consumers use minimum performance rules to “short list” their alternatives for exchange (Wilson & Woodside, 2001). Then they make more in-depth assessment of the exchange opportunity (Payne, Bettman, & Johnston, 1993; Wilson & Woodside, 2001). Other stakeholders also are confronted with the same decision-making context. Thus, it is suggested that consumers and other stakeholders will evaluate the potential benefits of an exchange opportunity before making a decision for entry.

For example, apart from the organizations’ institutional and competitive position, job applicants may consider specific characteristics of the position for which they are applying, such as salary, training, potential for career development, and so on.

Corporate reputation and social and pragmatic legitimacy may affect the stakeholder exchange evaluation. By establishing relationships with reputable companies, individuals can define and redefine their own position in the social environment. Community members may use the institutional performance as a criterion for assessing an organization’s social legitimacy and for assessing the potential benefits of its business operations in the neighborhood.

In summary, the stakeholder decision-making process for exchange with a company is based on several exchange rules: corporate reputation, social legitimacy, pragmatic legitimacy, and exchange benefits. According to these rules, stakeholders determine the firm’s overall attractiveness, its actions and results, and the value of the potential exchange. Each consecutive rule in the decision-making process is more related to the actual exchange relationship and less associated with the company’s general position in the environment.
Inputs to the Decision-Making Process

In each one of the steps of the decision-making process described above, stakeholders use information they draw from various sources of varying degrees of credibility. Because these sources have different expertise and motivation in communicating information on particular issue, people perceive different sources as more or less credible (Hovland & Weiss, 1951). Furthermore, the credibility of an information source affects the acceptance of the message that is communicated; that is, sources with high credibility on particular issue generate greater opinion change than do sources with low credibility (Hovland & Weiss, 1951). Therefore, stakeholders’ decisions would be more or less affected by the information that is available to them.

Stakeholders may gather information about a company’s actions and results by communicating with its employees (cf. Dutton, Dukerih, & Harquail, 1994; Gotsi & Wilson, 2001), asking for the opinions of members of their personal networks (Alessandri, 2001; Kazoleas et al., 2001), paying attention to rumors (Balmer & Gray, 1999; Fombrun, 1996), studying corporate self-presentations and those of the firm’s competitors (Balmer & Gray, 1999), such as advertising, public relations, graphic design, or sales promotions, and accessing reports in the media (cf. Bennett & Gabriel, 2001; Handelman & Arnold, 1999; Shenkar & Yuchtman-Yaar, 1997; Van Riel, 1995).

Stakeholders may also use corporate reputation as evidence of an organization’s legitimacy and the value of the exchange relationship and finish the decision-making process at earlier levels.

This is particularly true when stakeholders do not have access to information or when it is too costly to obtain the necessary information (Schweizer & Wijnberg, 1999) or when the benefits of the particular exchange cannot be discerned prior to the actual transaction (Kollock, 1994; Vendelo, 1998). By focusing on specific aspects of a company, individuals may retrieve some latent attributes of its reputation (Bromley, 2001), generate inferences, and use them in establishing the firm’s legitimacy and the potential benefits of the exchange. To continue to the next stage of the decision-making process, the new information has to reinforce the company’s reputation. If the new information is contradictory, the stakeholder may discard the opportunity for relationship. However, if the source of the information lacks credibility, the stakeholder may continue the decision-making process regardless of the new information. The lack of information about an organization’s institutional and competitive activities can
also serve for the evaluation of a firm’s legitimacy. For example, the lack of information can be interpreted as evidence that the company has not violated any social and industry norms.

Implications for Corporate Reputation Management Practice

Corporate reputation is a result of the interactions between a company and its stakeholders and of stakeholder-stakeholder communication (Deephouse, 2000).

Because each stakeholder decision affects the individual’s impression about the company and consequently what that person communicates to others, the outcomes of the decision-making process can influence corporate reputation.

Stakeholders exit the decision process when some aspect of an organization’s performance is negatively evaluated. Therefore, a termination has the potential to harm the reputation of the company. In contrast, a person’s decision to continue the process is a result of a favorable evaluation of a company and, thus, can enhance the firm’s reputation.

On the completion of each stage of the decision-making process, stakeholders may communicate their impressions of the company to other stakeholders depending on whether they have the willingness, the opportunity, and the power to do so.

Corporate reputation can be influenced by stakeholders’ individual images only when they are willing to involve in communication about a firm. The importance of organizational actions and results for stakeholders determines their willingness to communicate and take actions in respect to the firm (Mitchell, Agle, & Wood, 1997; Savage, Nix, Whitehead, & Blair, 1991). Furthermore, it is essential that stakeholders have the opportunity to communicate about an organization to influence its reputation. For example, Driscoll and Crombie (2001) demonstrated that one of the reasons a stakeholder group could fail to pursue its claim on a company is because it does not have access to opinion leaders and the media. Stakeholders also need to have power to influence the way others perceive organizations (Mitchell et al., 1997) and thus the overall corporate reputation.

Case Study

To describe the practical implications of the proposed model, a case study concerning recent changes in the operations of James Hardie Industries in
Australia will be presented. The company commenced operations in the early 1920s and became a leading supplier of asbestos-based building products in Australia. In the 1970s, evidence related to the deadly effects of the asbestos to humans began to emerge, with such evidence inducing most nations to ban asbestos in building materials. This led to a substantial restructuring of James Hardie operations (Rennie, 1988). From 1968 to the mid-1980s, the firm gradually ceased to use various types of asbestos in its products, including insulation, pipes, and other building materials. In the late 1980s, James Hardie became a public company, diversified, and expanded operations in the United States, where it opened manufacturing plants for fiber cement products. By 2000, the company became the fourth-largest producer of gypsum wallboard in the U.S. gypsum wallboard industry (Jobson, 2000).

Back in Australia, the company reputation and financial situation were seriously shaken by continuous lawsuits from individuals who were diagnosed with asbestos-related diseases because of exposure to James Hardie products. Exposure to asbestos can lead to various types of cancer and particularly mesothelioma, which can take 20, 30, or 40 years to develop. Thus, individuals may die before they are diagnosed with an asbestos disease. Of critical importance for the company reputation was a lawsuit filed by a former asbestos cement machinist who worked for James Hardie in the 60s. In September 2000, the company was found guilty of withholding information about the health hazards originating from asbestos exposure and ignoring the welfare of its employees. The court evidence showed that in 1965 the company was aware of the long incubation period for asbestos-related diseases. In fact, the firm was advised by a doctor to employ only older people because they would die before they had a chance to become ill (Abbott, 2000). In the same year, the company was also found guilty of not advising its home renovation customers of the dangers in handling asbestos materials (Towers, 2000).

Under the Australian common law system, the success of the lawsuit can be used as a precedent in future compensation claims against James Hardie. Australia has the highest documented level of asbestos-caused cancers in the world, with 9,000 recorded deaths and another 9,000 predicted by 2020 (Hills, 2005). James Hardie, previously the leader in asbestos-based building supplies in Australia, had to deal with an ever increasing number of claims from asbestos victims. As a consequence, James Hardie was ordered to establish the Medical Research and Compensation Foundation, a body that was intended to compensate asbestos victims. However, the financial resources allocated by James Hardie for payment of claims were significantly lower.
than the size of the claims brought against the company. The Medical Research and Compensation Foundation had to pay Aus$60 million in claims but had only Aus$30 million in assets (Mahne, 2004). In 2001, the company moved its headquarters to the Netherlands and changed its name to James Hardie Industries NV. As a result, the company ceased its operations in Australia under the old name, and therefore it had no legal obligations to continue to pay compensation to individuals affected by James Hardie asbestos products.

Representatives from James Hardie NV in the Netherlands refused to further finance the compensation fund: “There’s a wall between us and Australia; we’ve got no obligation to fix up any of the Australian company’s money” (Mahne, 2004). In response to this statement, various stakeholder groups took action against the firm.

Australian local council representatives voted to place a boycott on the company by refusing to use any of its contracting services until it provided adequate compensation for current and future asbestos victims (“James Hardie Boycott Called,” 2004). In Sydney, a permanent picket line in front of the main office of the firm was established, with protesters demanding compensation for current and future claims arising from individuals diagnosed with asbestos-related diseases. This was followed by an Australia-wide boycott of James Hardie products. Representatives from the Australian Council of Trade Unions urged for a global boycott on James Hardie products. Within a year of the announcement of the boycotts, James Hardie’s share price collapsed from Aus$7.81 to Aus$5.02, incurring losses of more than Aus$1 billion (Hills, 2005).

Finally, in December 2004, representatives from James Hardie Industries NV signed an agreement with the Australian Council of Trade Unions, ensuring full compensation for future claims against victims of James Hardie asbestos products. The agreements was the largest voluntary funding scheme from a company in Australia and ensured cumulative payments of up to Aus$1.9 billion to asbestos victims (Gosnell, 2004).

Up to the late 80s, James Hardie maintained a reputation for industry leadership. Because there was no contradicting information, individuals assumed that the firm was socially and pragmatically legitimate and pursued various forms of relationships with the firm (employee, consumer, community). In the late 80s, there was a change in the industry standards and government regulations regarding the use of asbestos. James Hardie asserted its pragmatic legitimacy by producing building materials that complied with the changed industry standards (i.e., were asbestos free). The evidence presented in court
in 2000 demonstrated that back in the 60s and 70s, the firm employed unethical and illegal business practices that caused serious damages to the welfare of many individuals in Australia. By showing that the company failed to comply to the Australian legal standards, these revelations questioned its pragmatic legitimacy. To rectify the situation, James Hardie paid out compensation claims as required by the law and set up a fund for paying out future claims from asbestos victims. In 2001, the company moved its headquarters to the Netherlands and changed its name to James Hardie NV. With this move, the firm had no legal responsibilities for actions taken by its ancestor—James Hardie—and refused to fund the Medical Research and Compensation Foundation. Initially, this decision had no negative implications for the pragmatic legitimacy of the firm, as its operations and outputs complied with the current industry standards and government regulations. However, it seriously undermined the firm’s social legitimacy and reputation.

To its various stakeholders, James Hardie NV had the moral responsibility to honor current and future claims for compensations of individuals diagnosed with the asbestos disease from exposure to James Hardie products in Australia. Consequently, local communities, former and current employees of the firm, and the general public in Australia boycotted its operations by refusing to have any relationship with it. This translated into massive losses for the company and drove down its share price. The fall in the share price further indicated decreasing confidence in the firm’s ability to produce product that the society wanted and valued and thus decreasing confidence in James Hardie NV’s pragmatic legitimacy.

In comparison to the Australian consumer and share market, there was no apparent reaction from the stakeholders of James Hardie NV in Europe and the United States. In fact, the company continued to experience growth in the U.S. building supplies market. Thus, in other regions, the firm managed to maintain its reputation for industry leadership. To the knowledge of U.S. stakeholders, James Hardie NV had social and pragmatic legitimacy. The relatively scarce U.S. and European media coverage regarding the organization’s activities in Australia could have been interpreted as evidence that the company had not violated any social or industry norms.

**Conclusion**

This article introduces a theoretical framework concerning stakeholder decision-making processes for establishing relationships with companies
by integrating reputation management, institutional theory, corporate social responsibility, and marketing perspectives. A theoretical contribution of the study is the synthesis of these perspectives.

According to corporate citizenship literature, companies are not isolated entities but part of the society in which they operate. Thus, they have mandatory economic and legal obligations but are also expected to adopt ethical standards above what the law requires and to make discretionary contributions to the well-being of their communities. However, the corporate citizenship literature has not provided conclusive evidence that good corporate citizenship is good for business (Zarkada-Fraser, 1999). Institutional theory has taken the problem one step further and claimed that a firm’s social legitimacy influences the stakeholder perceptions of an organization’s pragmatic legitimacy and affects individuals’ intentions to provide their support for a company. In a similar manner, strategic management advocates that corporate reputation is a strategic resource that affects stakeholder willingness to enter into exchanges with a company (Cornelissen, 2000; Fombrun & Rindova, 1996; Gotsi & Wilson, 2001; Weigelt & Camerer, 1988). The consumer behavior literature postulates that business excellence depends on the satisfaction of individual consumer needs and expectations.

This article argued that a more comprehensive conceptual framework explaining the individual stages of the stakeholder decision-making process for establishing long-term relationships with an organization can be created by melding together contributions originating in different academic disciplines. As a result, it is possible to fully understand not only the reasons why but also how corporate reputation has affected companies’ relationships with stakeholders.

The research also clarifies how stakeholders interpret and utilize information in the decision process for exchange. In the absence of relevant information, stakeholders make decisions on the basis of inferences and may change their attitudes and behavior depending on the information communicated and the credibility of the information sources.

In addition, the model contributes to the development of corporate reputation management theory. Grounded on stakeholder theory, the research has identified the factors determining the potential impact of the stakeholder decisions on corporate reputation. Further research is needed to empirically verify the proposed model and to ascertain the level of credibility of various information sources on particular issues.
Note

1. “Produce goods and services that society wants and to sell them at a fair price . . . that provides the business with adequate profit for its perpetuation, growth and reward to its investors” (Carroll, 1989, p. 30). Conduct business by conforming to the law: “Stay within the rules of the game . . . without deception and fraud” (Friedman, 1982, p. 133).

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