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How relational capital mediates the effect of corporate reputation on competitive advantage: Evidence from Taiwan high-tech industry

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ABSTRACT

Although the effects of corporate reputation on competitive advantage are well documented, the mechanisms that explain those effects remain unclear. We develop and test a theoretical model to investigate how relational capital mediates the impact of corporate reputation on competitive advantage. The hypotheses were tested using a sample of Taiwanese high-tech firms during the period of 2002–2011. Results from hierarchical regression analyses support the contention that corporate reputation positively affects relational capital, which then positively affects competitive advantage. But surprisingly, we do not find support for the direct effect of corporate reputation on competitive advantage, and we instead find that relational capital is a complete mediator.

1. Introduction

Good corporate reputation has become a cornerstone of many firms' competitive strategy [1]. But the question remains, where does good reputation come from? Most generally, good reputation is determined by two facets: perceived quality and market prominence [2]. Reputation as perceived quality is based on economic orientation and is driven by the quality of a corporation's product. Reputation as market prominence is rooted in a social tradition that reflects the extent to which a firm is held in high esteem [3]. A good corporate reputation is a source of strategic competitive advantage since it enhances a firm's ability to enter markets, increase its market reach [4], and create value to customer [5]. Empirical results from studies on corporate reputation posit significantly positive impacts on firm's performance (e.g., [6]), and many well-known companies, such as Apple, Coca-Cola, and Microsoft, have come to appreciate the benefits of corporate reputation. However, others studies find opposite results (e.g., [7,8]), and a classic example of the effects of negative consumer evaluations of corporate reputation was the worldwide boycott of Nestle food products in the 1970s and 1980s ([9], pp.632–635). Fisher [10], however, points out that it is difficult to understand the causal relationship between a good reputation and competitive advantage. Given this state of the empirical findings, it is possible that corporate reputation may be in danger of being inappropriately exploited in practice if the conditions that influence the corporate reputation-competitive advantage link are not critically and fully examined.

Research on theories of corporate reputation has progressed since 1990. Many well-developed theories have been invoked as possible perspectives to better understand and explain how corporate reputation influences organizational performance, including the resource-based view (e.g., [11,12]), signal theory (e.g., [2]), and transactional cost economics [13]. These studies have helped establish the important role of reputation in influencing firm performance. But despite the important contribution of these findings, few studies have been able to explain the mediator in the relationship between corporate reputation and competitive advantage. Though not explicitly theorized as a mediator in the link between corporate reputation and competitive advantage in the existing literature, relational capital has been treated implicitly as an important mediator between corporate reputation and competitive advantage.

We use this current work to develop the notion of relational capital, which refers to the organization's ongoing relationships implemented through interactions among potential exchange

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partners [14–16]. Relational capital, as defined, is based on close interaction between exchange partners, and we believe that relational capital has important competitive advantage implications for the partners. Relational capital should be practiced when offers, or contributes to, a firm's strategy for achieving competitive advantage [17]. We suggested that scholars have neglected the search for explaining how to create sustainable competitive advantage based on relational capital. Here, we propose that there exists an important mediator, relational capital, between corporate reputation and competitive advantage relationships.

This study intends to fill this void by investigating how the potential benefits of corporate reputation are translated into a firm's competitive advantage with relational capital as a mediator. By linking these concepts, we hope to enhance our understanding of the underlying corporate reputation leveraging and the creation of competitive advantage. Most scholars claim that corporate reputation serves as a firm's important resources (e.g., [64]); while minor scholars posited that corporate reputation might be a liability causing firms with good reputation to suffer more market penalty than firms with a poor reputation (e.g., [8]). This aims to provide an alternative explanation for the divergent results obtained for the directed relationship between corporate reputation and competitive advantage. Secondly, we empirically test whether and how relational capital influences competitive advantage. Thirdly, from the viewpoint of forecasting method, the vast majority of work relating corporate reputation has been cross-sectional. In the present study, the limitation of traditional forecasting method is presented to estimate the corporate reputation. However, recent research has suggested that corporate reputation vary considerably over time, we then propose an alternative forecasting model based on dynamic design. Our dynamic model in Fig. 2 posited that corporate reputation creates competitive advantage both directly and indirectly through relational capital over time. The important theoretical contribution is that time translates directly into accumulated reputation and relational capital in our dynamic model.

These goals are accomplished by first reviewing the background literature for this study, followed by specifying the research model and hypotheses. Methods of the study are then described, together with data analysis and results. Finally, the article concludes with discussion of the implications for theory, practice and future research. Fig. 1 presents the theoretical model proposed to explain the underlying processes through which corporate reputation leads to relational capital and thus to competitive advantage.

2. Theory and hypotheses development

2.1. Linking corporate reputation to competitive advantage

Corporate reputation is a principal source of competitive advantage because it has a “halo” effect over other intangible assets such as human capital and social capital. In this study we define corporate reputation as the prestige maintained over time that, based on a set of strategies and through the eminence achieved with each stakeholder, assures the sustainability of the firm [18–20]. Reputation provides advantages that lead to positive results in several domains. These may include distinguished firms from competitors, improving organizational performance [7], creating added-value [21], and charging premium prices [22]. Moreover, other research shows that reputation has a positive impact on capital gains, on the stock market [23], and market value [24]. These studies document that corporate reputation is an important intangible resources that enhances a firm's ability to gain a competitive advantage.

From the resourced-based view (RBV), a firm's competitive advantage is achieved by controlling the endowment of rare, valuable, and inimitable resources [25]. However, in today's fiercely competitive business environment, firms are increasingly finding themselves trapped in the problematic situation that their existing firm-specific resources are no longer sufficient to maintain their competitive advantage. Competitive advantage refers to a resource or capability that is difficult to imitate and is valuable in helping a firm outperform its rivals [26,27]. The underlying powerful influence from intangible assets follows Hitt et al. [28], who state that “intangible resources are more likely than tangible resources to produce a competitive advantage.” (p.14) Corporate reputation may be considered a value-creating intangible asset when it meets the following conditions: 1) it is valuable due to its ability to add financial value to the firm; 2) it is rare, meaning that there is a meaningful difference within the relevant set of firms; 3) it is imperfectly imitable by other firms, meaning that reputation is a social resource, one that stakeholders must confer on a firm [29]. Firms that have a superior reputation can have higher long-term performance, which in turn creates a sustainable competitive advantage.

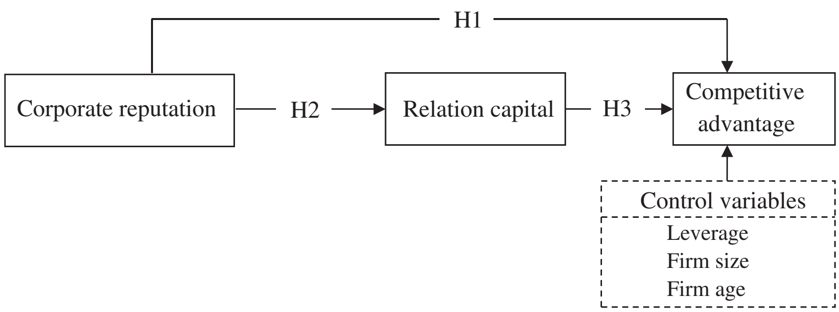

Fig. 1. Theoretical model.