

Does Reputation Affect Perceived Risk and Relational Outcomes?

ABSTRACT

Given the strategic importance of firm reputation due to its potential for value creation, extant reputation research focuses on favorable customer outcomes. Building on an established conceptualization of customer-based corporate reputation, this study proposes and tests a model that relates the reputation of fashion retailers to customer-perceived risk and two relational outcomes—trust and commitment. Using a sample of more than 300 German fashion shoppers, the study finds support for the hypothesized linkages. Furthermore, not all linkages are equally strong between women and men. Implications for marketing theory and practice conclude.

Keywords: Commitment, Customer-based corporate reputation, Fashion, Mediation, Moderation, Perceived risk, Trust

INTRODUCTION

Many fashion retailers face reputational challenges, many of which involve their actual or alleged behavior toward suppliers, staff, and customers. Recent, well-publicized cases exemplify this challenge. For example, fashion retailers KiK (Germany) and Primark (mainly United Kingdom), both known for their cheap merchandise, have worked to improve their supply chains after discovery that Asian subcontractors paid their employees very low wages (Lahiri & Passariello 2013). Critics have also attacked these retailers for their social policies, especially the low wages they pay their store staff. U.S. retailer Abercrombie & Fitch has received criticism in Europe for hiring staff for its stores solely on the basis of appearance (Lutz 2013). Finally, the Swedish fashion retailer H&M has come under criticism in the United States for allegedly shredding and disposing unsold clothes, instead of giving them to charity (Kawalek 2010). All these examples illustrate that fashion retailers need to manage their reputation, which can come under threat in myriad ways, and its outcomes. Accordingly, this research follows and extends previous research that examines the effect of reputation on important downstream variables when an individual customer is the unit of analysis (e.g., Walsh et al. 2014).

Marketing practitioners (Gaines-Ross 2010) and scholars recognize the importance of customer-based corporate reputation (CBR)—conceptualized as customers’ overall evaluation of a firm based on their reactions to the firm’s offerings, communications, and interactions with the firm (Walsh & Beatty 2007)—proposing that CBR affects customer citizenship behavior (Bartikowski & Walsh 2011), loyalty and satisfaction (e.g., Jin et al. 2008; Walsh et al. 2009a), customer word of mouth (Park & Lee 2009), and spending and share of wallet (Walsh et al. 2014). In addition to these reputation outcomes, scholars highlight other outcomes that result from a favorable reputation. Specifically, Walsh and Beatty (2007, p. 129) advance the notion that “a strong CBR can reduce transaction costs and perceived risk of customers.” Fombrun and Shanley (1990) theorize that a strong reputation should increase customer trust. Wang et al. (2006) indicate that corporate reputation is a logical precursor of relational outcomes, especially commitment (Hennig-Thurau et al. 2002). These links are managerially relevant because trust and commitment are key relational outcomes (Hennig-Thurau et al. 2002), with commitment being “key to achieving valuable outcomes” (Morgan & Hunt 1994, p. 23). However, no individual study empirically investigates any of these reputation outcomes (i.e., customer-perceived risk, trust, and commitment) simultaneously in a fashion context. This gap is an important oversight, given that research on the mechanism through which CBR affects relevant customer outcomes is at a nascent stage and largely ignores contextual factors (Walsh et al. 2014).

Given corporate reputation’s role as a key differentiator in competitive markets, additional research into reputation outcomes is warranted. The European fashion market, which is worth €420bn (approx. \$520bn) (Schuetze 2014), is such a market. Finding empirical evidence for reputation-induced risk-reducing and relational outcomes-enhancing processes would be theoretically meaningful and strengthen fashion retail managers’ position of allocating resources to help build a strong reputation. This study is also the first to examine the impact of CBR on the three mentioned variables in relation to the most important demographic in fashion retailing—gender (Workman & Studak 2006). Bartikowski et al. (2011) examine the CBR–loyalty relationship for different cultures and relationship-age groups. However, they do not consider customer gender. Gender thus serves as a moderator in the conceptual model (Fig. 1). By addressing these issues, the present study makes at least three important contributions to the literature on customer outcomes of corporate reputation.

Taken together, this research offers a better understanding of the mechanism by which CBR affects relational outcomes by investigating contingencies. Evidence from a survey spanning two fashion contexts (shoes and clothes) is presented. The results of the study confirm a negative CBR–

perceived risk link, a positive CBR–trust link, a negative risk–trust link, and a positive trust–commitment link. Finally, the results reveal that gender moderates these links.

-----Insert Figure 1 about here-----

BACKGROUND AND HYPOTHESES

Theoretical foundations

Despite the size of the market for fashion and consumers' penchant for buying fashion products, no study thus far relates CBR to customer outcomes in the context of fashion retailing. Issues examined in extant research include fashion retailers' use of the Internet as a means to manage their reputations (Jones et al. 2009) and the role of corporate reputation for internationalizing fashion retailers (Burt & Sparks 2002). In a conceptual piece, Fan (2005) discusses fashion retailers' ethical branding and its link to corporate reputation. To date, though, surprisingly little research examines how corporate reputation affects customer outcomes in the fashion retailing market or the boundary conditions of reputation–outcomes relationships (see Table 1).

-----Insert Table 1 about here-----

The dominant view in the literature is that the mechanisms through which CBR is converted into behavioral outcomes are reduced perceived risk (e.g., Chen & Dubinsky 2003; Standifird 2001) and enhanced trust (e.g., Michaelis et al. 2008). A strong reputation can reduce customers' transaction costs and uncertainty (e.g., Walsh et al. 2014) and thus decrease the information asymmetry that typically exists between retailers and their customers. Reputation's risk-reducing effect likely comes about because reputation is a signal that helps consumers predict the quality of a firm's offerings and its future behavior (Gürhan-Canli & Batra 2004). A retailer's positive reputation also drives the customer's perception of trust by implying the organization's reliability, credibility, and implicit quality of offerings (Fombrun 1996; Wiedmann et al. 2013). While prior research theorizes the nomological relationship among reputation, risk, trust, and the primary outcome (i.e., customer commitment), empirical investigations remain surprisingly scarce. Specifically, research speculates, but never formally tests, that customer-based reputation has a risk-reducing and trust-enhancing effect that should directly or indirectly positively affect customer commitment (Fombrun & Shanley 1990; Walsh et al. 2009b).

The proposed conceptual model (see Fig. 1) considers two relational outcomes of customer-based reputation—trust and commitment. Trust and commitment serve as important outcome variables in the model because they are likely to drive firm performance (Singh et al. 2011). According to commitment–trust theory of relationship marketing (Morgan & Hunt 1994), commitment and trust are two key constructs in the theoretical conceptualization of relationship quality.

Perceived risk appears as a mediating variable in the CBR–trust link. Researchers conceptualize perceived risk in terms of customers' perceptions of uncertainty and associated consequences of buying a good or service (Dowling & Staelin 1994). Furthermore, the present research considers customer gender a moderator. Research suggests that fashion is more important to women than men because women have higher public self-consciousness and thus tend to be more concerned about their clothing and appearance (e.g., Lertwannawit & Mandhachitara 2012).

Hypotheses

The proposed model assumes that CBR is a signal with the potential to affect relational outcomes directly and through decreased risk perceptions. Among the attributes that help a firm

positively distinguish itself from others and thus reduce customers' uncertainty is a firm's reputation (Walsh et al. 2009b), which is a characteristic of credibility (Ganesan 1994). CBR is also a signal of quality and sound firm behavior toward transactions and the relationship with the customer (Walsh et al. 2009b). When dealing with a reputable fashion retailer, the customer can assume that the firm has not previously engaged in opportunistic behavior and thus does not pose a risk (Pavlou 2003). In this sense, previous findings suggest that positive perceptions of firm reputation reduce the level of perceived risk.

Given that women generally experience higher product-related perceived risk (e.g., Mitchell & Vassos 1998), CBR's risk-reducing effect may be less salient among women than men. Indeed, evidence suggests that women are more eager to avoid negative decision outcomes than men (Croson & Gneezy 2009), indicating the difficulty of convincing female customers of a firm's soundness—that is, overcoming their firm-related skepticism. Taken together, previous research suggests that a given level of firm reputation has less of an effect, in terms of reducing risk, on women than men.

H1a. CBR negatively affects customer-perceived risk.

H1b. The negative impact of CBR on customer-perceived risk is greater for male than female shoppers.

Customer trust exists when the customer has confidence in the firm's reliability and integrity (Morgan & Hunt 1994). Customer trust, defined as the willingness to rely on one's expectations about a retailer's future behavior, is based on a subjective judgment prompted by customers' positive or negative emotional feelings toward the retailer (Rousseau et al. 1998). CBR, which is partly based on personal experience with the retailer (Walsh & Beatty 2007), shapes the customer's subjective judgment. This view aligns with the notion that customers engage in belief-consistent behavior, such that they put more trust in retailers they perceive as having a more positive reputation (Walsh et al. 2014). Research thus posits that a retailer's favorable reputation signals its trustworthiness to customers and thereby generates trust (e.g., Bartikowski & Walsh 2011).

Evidence also shows that women are more responsive than men to negative reputation cues (e.g., Garbarini et al. 2014). For example, Bailey (2005) shows that when firms have negative reputations, women develop more unfavorable attitudes and intentions toward them than men. Conversely, firms with a sound reputation should be able to enhance women's trust in them to a greater extent than men's trust. In addition, researchers note that women are more inter-dependent (vs. independent) and socially connected (Cross & Madson 1997; Garbarino & Strahilevitz 2004), suggesting that women are more responsive to relational cues, such as a firm's reputation.

H2a. CBR positively affects customer trust.

H2b. The positive impact of CBR on customer trust is greater for female than male shoppers.

Also in line with signaling theory, reductions in information costs and perceived risk in relation to a retailer shape consumers' trust perceptions (Michaelis et al. 2008). Previous studies find that perceived risk influences consumers' attitudes and behaviors in general (e.g., Chang & Wu 2012; Dowling & Staelin 1994). A retailer associated with high levels of risk may not convince consumers of its trustworthiness, suggesting that perceived risk negatively affects trust (e.g., Michaelis et al. 2008).

Furthermore, this study proposes that the negative risk–trust link is more negative for women than men. Women's reported greater risk proneness and generally lower trust in transaction partners (e.g., Garbarino et al. 2004) suggest that a given level of perceived risk will have a greater effect, in terms of weakening trust, for women than men.

H3a. Customer-perceived risk negatively affects customer trust.

H3b. The negative impact of customer-perceived risk on trust is greater for female than male shoppers.

Both theoretical and empirically validated arguments suggest a positive impact of trust on commitment (e.g., Palmatier et al. 2013). The important role of trust arises as a mechanism that governs relationships (Mixon et al. 2004). As a governance mechanism, trust affects important outcomes, especially commitment (Palmatier et al. 2013). In this sense, previous research indicates that customer trust in the firm is the major driver of commitment (e.g., Geyskens et al. 1999).

H4. Customer trust positively affects commitment.

METHOD

Data collection

A survey approach served to test the hypotheses. With the help of students, a link to an online survey was distributed to German female and male shoppers in a metropolitan area. The study focused on two shopping contexts, shoes and clothes, which were represented by a well-known retailer, respectively. A pre-study identified two fashion retailers that were well-known and widely used and thus suitable for the study: Deichmann (shoes) and H&M (clothes). The final data set comprised 321 complete and valid surveys from real customers (67.9%). Of the respondents, 194 were women and 127 were men. The average age was 25.2 years (SD = 8.7).

Measures

The authors adopted the five-dimensional conceptualization of *CBR* that Walsh and Beatty (2007) developed. This conceptualization involves being a financially strong company, being customer oriented, displaying corporate social and environmental responsibility, being a good employer, and providing innovative products and services. To assess *risk*, the authors used four items of general risk (Laroche et al. 2005). *Trust* was measured in terms of benevolence trust with three items from McKnight and Chervany (2002). *Commitment* was measured in terms of affective commitment with three items from Beatty et al. (2012). Seven-point Likert scales, ranging from 1 (strongly disagree) to 7 (strongly agree), were applied.

RESULTS

Measurement model evaluation

The measurement model and then the structural model were assessed with AMOS 21 and a maximum likelihood estimator. Confirmatory factor analysis (CFA) was performed, with CBR representing a reflective second-order construct with five dimensions, risk, trust, and commitment. The CFA indicates adequate model fit ($\chi^2/df = 2.158$, RMSEA = 0.035, CFI = 0.90) and composite reliability greater than 0.79 for all constructs).

Convergent validity represented by average variance extracted (AVE) should be greater than 0.5; all constructs exceed this threshold. Discriminant validity requires AVE to be larger than the squared correlation with any other construct (Bagozzi & Yi 2012). The measurement model meets this quality criterion for each construct (see Table 2; note: all scale items are available from the authors upon request). The authors also tested whether the measurement remained invariant across shopping contexts (Steenkamp & Baumgartner 1998). These tests indicate similar factor patterns and factor structures.

-----Insert Table 2 about here-----

Following Podsakoff et al. (2012), two tests for ruling out common method bias (CMB) were performed—Harman’s single-factor test and the unmeasured common latent factor test. Both tests indicate CMB does not appear to affect the study’s results.

Structural model evaluation and hypotheses testing

The structural model reveals an adequate fit with the data ($\chi^2/df = 2.123$, RMSEA = 0.059, CFI = 0.86). In support of H1a, the effect of CBR on risk is negative ($\beta = -0.49$, $p < .001$). The effect of CBR on trust is also supported ($\beta = 0.63$, $p < .001$), in agreement with H2a. Risk is negatively associated with trust ($\beta = -0.17$, $p < .01$), in support of H3a. Finally, the positive trust–commitment link ($\beta = 0.52$, $p < .001$) lends support to H4 (see Table 3).

-----Insert Table 3 about here-----

In line with recommendations in the literature, structural equation modeling served as the method of testing mediation effects (Iacobucci 2008). One structural model that includes both direct and indirect paths simultaneously was fitted—that is, the paths from CBR to risk, from CBR to trust, from CBR to commitment, from risk to trust, and from risk to commitment. Then, the significance of the mediating effects and all direct and indirect effects was tested using a bootstrapping procedure (using 1000 re-samples) to determine the 95% bias-corrected confidence intervals around these effects. A confidence interval that did not span zero indicated a statistically significant effect (Iacobucci 2008). As mentioned, the direct paths between the independent variable (i.e., CBR) and the outcome variables (perceived risk and trust) and between trust and commitment were significant. However, these paths are not a prerequisite for a mediating effect to exist (Preacher & Hayes 2008). Rather, if mediation paths from both the independent variables to the two mediators and the mediators to the dependent variable are significant, some mediation may exist. In the present case, one path, CBR to commitment, was significant for both men and women, as indicated by its bootstrapped bias-corrected confidence intervals (BCLB_{female}: 0.175, BCLB_{male}: 0.096; BCUB_{female}: 0.650, BCUB_{male}: 0.513; LB = lower bounds, UB = upper bounds). The standardized indirect effects were $\beta_{female} = 0.40$ ($p < .01$) and $\beta_{male} = 0.26$ ($p < .001$). These results show that perceived risk and trust fully mediate the relationship between CBR and commitment.

The values for male and female shoppers slightly differ at first glance, but whether they differ significantly from each other with regard to gender-related type-b hypotheses must be assessed. To test the moderation hypotheses, a multi-group specification (male vs. female) of the structural equation model in AMOS was used. A fully constrained structural model and an unconstrained baseline model served as the basis for the chi-square difference tests. The authors successively constrained paths and compared them with the unconstrained model (Walsh et al. 2014). All models have an adequate and comparable fit with the data (see Table 4). Gender moderates the path from CBR to trust ($\beta_{female} = 0.66$, $\beta_{male} = 0.48$, $\Delta\chi^2 = 3.08$; $p < .1$), in support of H2b. However, for the relationships between CBR and risk ($\beta_{female} = -0.40$, $\beta_{male} = -0.52$, $\Delta\chi^2 = 0.09$; $p > .1$) and risk and trust ($\beta_{female} = -0.13$, $\beta_{male} = -0.29$, $\Delta\chi^2 = 1.19$; $p > .1$), no moderation could be assessed. Thus, H1b and H3b have to be rejected in light of the data.

-----Insert Table 4 about here-----

DISCUSSION

The purpose of this study was to investigate direct and indirect links between fashion retailers' reputation and relational outcomes, the mediational role of perceived risk, and the moderational role of gender. Drawing on previous research, commitment–trust theory of relationship marketing, and signaling theory, this research finds support for the effects of CBR on perceived risk and trust, of risk on trust, and of trust on commitment. In particular, perceived risk and trust mediates the path from CBR to commitment. Furthermore, support is found for gender as a moderator of the relationships between CBR and trust. Specifically, CBR has a stronger positive effect on trust for women than men. This research builds on and extends research that explores outcomes of CBR (e.g., Walsh et al. 2014) by relating CBR to generally neglected outcomes (i.e., risk, trust, and commitment), by highlighting important contingencies, and by examining an under-researched context—fashion retailing.

Theoretical implications

The main contribution of this research is to further develop reputation theory by empirically testing a conceptual model of important but neglected outcomes of CBR in a fashion retailing context, in which firm reputation is a critical resource. For example, Primark was faced with customer boycotts after its reputation was sullied in the aftermath of a major accident in one of its Bangladeshi manufacturing facilities (Francis 2014). To the authors' knowledge, this is the first empirical investigation of the mediated and moderated effects of CBR on perceived risk and two relational outcomes. Specifically, the results of this research extend reputation theory by identifying a moderator of those relationships—customer gender.

The finding that CBR negatively affects perceived risk in both service contexts contradicts research by Chen and Dubinsky (2003), who do not find an effect of reputation on perceived risk in relation to online retailers. Acknowledging the counter-intuitive nature of their finding, Chen and Dubinsky call for further research to clarify moderation in the reputation–perceived risk relationship. The present study finds support for a strong negative relationship between CBR and risk overall and for both gender groups. A possible explanation for the non-significant reputation–risk link in Chen and Dubinsky's study is that online retailers—compared with bricks-and-mortar retailers studied in the present study—have more difficulty in projecting a good reputation. CBR refers to the mental associations customers actually hold about the retailer (Walsh & Beatty 2007). These mental associations are formed in various ways, including during personal interactions with a retailer. Online shopping typically is devoid of face-to-face interactions (with the retailer's employees) and tactile impressions, which help shape a customer's risk-reducing reputation perceptions (Walsh & Beatty 2007).

Furthermore, this research shows that CBR drives customer trust and subsequent commitment. Opposing theoretical viewpoints regarding the reputation–trust relationship, however, exist in the literature. For example, Walsh et al. (2009b) argue that trust predicts corporate reputation. In contrast, the present results show that a retailer's reputation influences consumer trust in the fashion retailer. This finding is in agreement with Michaelis et al. (2008), who report a positive impact of corporate reputation on customer trust in a services context. This study also contributes to the literature on the contingencies of CBR–outcomes relationships by finding support for the moderating role of gender. Despite its theoretical and practical relevance, research thus far does not consider customer gender a moderator variable (see Ali et al. 2014), emphasizing the value of the present results.

Managerial implications

Fashion retailers know that building and maintaining a favorable corporate reputation is costly in terms of money and time. Thus, these retailers must allocate such resources prudently. The findings suggest that a fashion retailer's positive reputation can reduce customers' perceived risk and engender trust. The findings therefore elicit some managerial implications. An important finding is the return on reputation. Specifically, retailers must recognize that risk is an inhibitor of relationships and that trust is an important relationship facilitator. The findings thus indicate that fashion retailers can gain a competitive advantage by building and nurturing a good reputation. The negative CBR–risk link deserves mention because prior research highlights the importance of low levels of customer risk. For example, Laroche et al. (2004, p. 385) maintain that firms “that can effectively reduce consumers' perceived risk are providing an important source of consumer value.”

In addition, fashion retailers may stand to benefit by investing in their reputation because reputation influences the key relational outcome, commitment, through perceived risk and trust, as evidenced by the mediation analysis. This finding is useful for retail managers, given that ample literature shows that customer commitment is critical to the creation and preservation of marketing relationships.

The present study also shows that customer gender influences CBR's impact on customer trust. Gender is a highly actionable variable and thus should be considered in fashion retailers' reputation programs. For example, fashion retailers should target women with reputation cues because doing so would lead to high levels of trust. Such cues may include information on the work conditions at a retailer or a retailer's “family friendliness.”

Limitations and further research

This research is also subject to limitations. One limitation is the collection of single-source data at one point in time, for both independent and dependent variables. Such data involve the risk of artificially high correlations. Although CMB was statistically addressed, further research could use data from multiple sources. Furthermore, only one moderator, gender, was considered. Other moderators relevant to fashion retailers (e.g., customer spending) could be related to CBR and its outcomes. Finally, this study obtained data from customers of bricks-and-mortar fashion retailers. As consumers increasingly shop online, research should investigate whether the proposed model relationships hold for online fashion retailers. For example, Hawes and Lumpkin (1986) report that customers perceive the risk of non-store shopping as significantly higher than shopping through bricks-and-mortar retail shops, perhaps suggesting that the CBR–risk and reputation-induced risk–trust relationships differ online. A replication of the present research in this direction would be a worthwhile avenue for further research.

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Table 1

Synthesis of previous research.

Author(s)	Sample size	Study context	Reputation consequences considered	Moderator(s) studied
Andreassen and Lindestad (1998)	n=600	Tourism	Customer satisfaction and loyalty	yes (customer service expertise)
Michaelis et al. (2008)	n=184	Insurance, telecommunications	Customer trust	no
Walsh et al. (2009b)	n=511	Energy supply companies	Customer loyalty and word of mouth	no
Caruana and Ewing (2010)	n=1857	Online retailers (books, share trading)	Online customer loyalty	no
Bartikowski et al. (2011)	n=1105	Fast-food restaurants	Affective and intentional customer loyalty	yes (culture)
Minkiewicz et al. (2011)	n=195	Zoological garden	Customer satisfaction, the role of employees in the service encounter, the servicescape	no
Walsh et al. (2014)	n=783	Food retailing, fast-food, banking, telecommunications	Non-monetary (loyalty, customer feedback) and monetary outcomes (spending, share of wallet)	yes (service type)

Table 2

Correlations and convergent and discriminant validity.

	(1)	(2)	(3)	(4)	CR
(1) CBR	(.70)				.81
(2) Risk	-.47	(.79)			.87
(3) Trust	.61	-.49	(.74)		.79
(4) Commitment	.68	-.27	.41	(.77)	.81

CR = composite reliability

Table 3

Results of structural equation modeling for unseparated and separated services.

Path	Overall	Hypothesis supported	Women	Men	Hypothesis supported
CBR → perceived risk (-)	-.49***	H1a, yes	-.40**	-.52***	H1b, no
CBR → trust (+)	.63***	H2a, yes	.66***	.48***	H2b, yes
Perceived risk → trust (-)	-.17**	H3a, yes	-.13 ^{ns}	-.29**	H3b, no
Trust → commitment (+)	.52***	H4, yes	(.56***)	(.42***)	-- ^a

*** $p < 0.001$; ** $p < 0.05$; * $p < 0.10$; ^agender difference for the trust–commitment link was not hypothesized

Table 4

Multi-group model comparisons.

Path	X ² (df)	$\Delta\chi^2$ (Δdf)	χ^2/df	RMSEA	Equality	Moderation effect
Baseline model	1023.114 (482)		2.123	0.59		
Fully constrained model	1027.611 (486)	4.49 (4)	2.114	0.59		
CBR → perceived risk (constrained)	1023.213 (483)	0.09 (1)	2.118	0.59	yes	no
CBR → trust (constrained)	1026.190 (483)	3.08 (1)	2.125	0.59	no	yes
Perceived risk → trust (constrained)	1024.308 (483)	1.19 (1)	2.121	0.59	yes	no
Trust → commitment (constrained)	1023.705 (483)	0.59 (1)	2.119	0.59	-- ^a	-- ^a

Note: Thresholds 1025.82 for 90% confidence interval, 1026.96 for 95% confidence interval, and 1029.75 for 99% confidence interval.

^agender difference for the trust–commitment link was not hypothesized

Fig. 1. Conceptual model.