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## **How Does Reputation Win Trust?** A Customer-Based Mediation Analysis

***Abstract:** This study investigates the relationship between customer-based corporate reputation (CBR) and customer trust, in particular, the mediating role of customer perceived risk in this relationship. We propose and test a model comprising of four components: cognitive CBR, affective CBR, customer perceived risk and customer trust using a sample of 156 customers from the fast-food services industry in Pakistan. The results suggest that the cognitive and affective dimensions of CBR behave differently in developing customer trust. Affective CBR has a direct positive relationship with customer trust; whereas, customer perceived risk and affective CBR mediate the relationship between cognitive CBR and customer trust. Implications for research and practice are proposed based on the study results.*

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This study explores the process of developing customer trust through customer-based corporate reputation (CBR). Corporate reputation is the perceptual evaluation of an organization by its stakeholders (Fombrun, Gardberg, and Sever 2000; Walker 2010). Therefore, it may vary for different stakeholder groups and researchers should study it

separately for diverse groups, including customers, employees, investors and others (Fombrun and Shanley 1990; Walsh and Beatty 2007). This study focuses on customers due to their importance as a major source of revenues (Walsh et al. 2009a) and their influence on marketing practices (Kotler 2011).

Corporate reputation is a valuable strategic resource that provides competitive advantage for an organization (Ponzi, Fombrun, and Gardberg 2011; Abratt and Kleyn 2012). Empirical evidence shows that the positive reputation performs a favorable role in relationship marketing through enhancing customers' trust, commitment and intentional loyalty (Eastlick, Lotz, and Warrington 2006; Walsh et al. 2009a). The study of customer trust has received considerable attention in the extant literature (e.g., Morgan and Hunt 1994; Johnson and Grayson 2005; Sichtmann 2007) due to its strategic importance for the businesses. Customer trust is a central construct in relationship marketing and serves as a key benefit of CBR (Eastlick et al. 2006; Walsh, Beatty, and Shiu 2009b; Jeng 2011). The role of customer trust in marketing success and in winning the customers from competitor organizations signifies its value for practitioners (Sichtmann 2007). However, the relationship of CBR with customer trust needs further development and better understanding by addressing some of the gaps identified in the extant literature.

Drawing on theory regarding attitudes, researchers have conceptualized reputation as an attitude-related construct consisting of both the *cognitive* and *affective* components<sup>1</sup> (e.g., Fombrun et al. 2000; Schwaiger 2004; Eberl and Schwaiger 2005). However, while paying much attention to the study of the cognitive component of reputation (e.g., Eastlick et al. 2006; Keh and Xie 2009) researchers have somehow neglected the contribution of its affective aspect towards customer trust. We argue for studying both the components of CBR and using a balanced conceptualization of CBR due to several reasons. *First*, the affect is a key component of attitudes in general (Ostrom 1969; Chang and Wu 2012) and of CBR in

particular (Raithel and Schwaiger 2014). Therefore, any study of the customers' attitudes towards an organization should not be considered complete with the missing or underrated component of affect. *Second*, affect is conceptually different from cognition. Affect is based on emotions, whereas, cognition is knowledge-driven (Johnson and Grayson 2005). *Last*, affect performs differently from the cognition; for example, with respect to their relative contribution in constructs such as customer satisfaction (Homburg, Koschate, and Hoyer 2006) and corporate financial performance (Eberl and Schwaiger 2005). Similarly, affective reputation, as the evidence suggests, works differently from the cognitive reputation (Raithel et al. 2010). The differential nature of both attitude-components strengthens our expectation for the differential impact of cognitive CBR and affective CBR on customer trust. Therefore, the first objective of this study is to compare the contribution of the affective aspects of the CBR to consumer trust against that of the cognitive component. We emphasize that ignoring the important affective component of CBR may hinder to completely understand the actual role of CBR in the development of customer trust. An over-emphasis on cognitive CBR while underestimating the affective CBR can introduce a potential bias into the policy guidelines for reputation management. Empirical findings that address this research gap may have useful implications for reputation managers and future researchers.

This study also questions the well-established 'direct' nature of CBR-Trust relationship, as suggested in the extant literature (e.g., Eastlick et al. 2006; Walsh et al. 2009b; Jeng 2011). Drawing on theory of customer perceived risk, we propose and test customer perceived risk as a mediator in the relationship between CBR and customer trust. Customer perceived risks refer to customer's judgments of uncertainty and any negative consequences associated with a purchase decision (Taylor 1974). Generally, buying services tends to be riskier than buying goods due to higher uncertainty that relates to services' unique characteristics, i.e., intangibility, heterogeneity and inseparability (Mitchell and Greatorex

1993; Mitchell 1999). Reputation helps customers to reduce perceived risk in B-to-C relationships (Van den Poel and Leunis 1999). Given the role of positive reputation in mitigating the perceived risk (Lacey, Bruwer, and Li 2009; Sun 2014) and the influence of perceived risk management on developing customer trust (Morgan and Hunt 1994), it is important to conceptualize and investigate the mediating effects of customer perceived risk in CBR-Trust relationship. The second objective of this study is, therefore, to test how CBR (both the cognitive and affective CBRs) associates with customer trust in presence of the customer perceived risk as a mediator in this relationship. In summary, the two study objectives contribute towards the comprehension of the CBR-Trust relationship by using a better conceptualization of CBR and by introducing the mediating effects of customer perceived risk.

Following Bartikowski, Walsh, and Beatty (2011), this study chooses the fast-food restaurant services as the research context. As the authors suggest, this industry has low exit barriers for the customers because they can easily switch from one to another fast-food restaurant. This makes the trust-building and relationship management activities difficult for the concerned managers.

This study presents a conceptual model of CBR-Trust relationship consisting of nine hypotheses. The model covers both the cognitive and affective dimensions of CBR and it includes multiple aspects of customer perceived risk, consisting of functional, physical, financial and time risks as suggested by Taylor (1974) and Schiffman, Kanuk, and Hansen (2008). Furthermore, we discuss the research methodology, including: sampling and data collection; measurement of key constructs; common method bias; instrument development and data analysis techniques. We then evaluate the measurement and structural models, we test our hypotheses and we discuss our results addressing the study objectives. The implications of the research findings for practitioners and future researchers are offered.

## **Theory and hypotheses**

The conceptual model (see Figure 1) represents the direct and indirect (mediated) effects of CBR on customer trust. Attitude theory and the research findings from the extant literature explain the direct effects, whereas, theory of customer perceived risk explains the mediating role of customer perceived risk in the CBR-Trust relationship. In the following paragraphs, we discuss the literature that supports the relationships included in the model.

[INSERT FIGURE 1 ABOUT HERE]

### **Attitude theory and corporate reputation**

Attitude theory has its origins in the disciplines of psychology and sociology. Due to continuous development over a long period of time, the term *attitude theory* does not refer to any specific theory but rather to an aggregate of multiple theories developed under this umbrella (Eagly and Chaiken 1993), along with discussion of various issues related to definition, formation and change of attitudes. The attitude from its core refers to the evaluation of an object or entity (Eagly and Chaiken 1993; Petty, Wegener, and Fabrigar 1997). Since corporate reputation also represents the evaluation of an organization by its stakeholders (Fombrun et al. 2000; Walker 2010), it reflects attitudes of respective stakeholder groups.

In addition to the behavioral components, cognition and affect are two main constructs of attitudes (Chang and Wu 2012). Cognition refers to beliefs, judgments and thoughts related to an attitude object, whereas affect represents emotions, drives or feelings towards an attitude object (McGuire 1969; Millar and Tesser 1986; Petty et al. 1997). In the same vein, reputational researchers conceptualize CBR as consisting of its cognitive and

affective dimensions (e.g., Schwaiger 2004; Zhang 2009; Raithel et al. 2010; Raithel and Schwaiger 2014;). Literature has widely supported the *affect* as a consequence of *cognition* (e.g., Fishbein and Ajzen 1975; Einwiller, Carroll, and Korn 2010;). Particularly in the reputational studies, Einwiller et al. (2010) used Ray's (1973) learning hierarchy model to postulate that for high involvement products such as automobiles, customer at first thinks (cognition), then feels (affection) before exhibiting any behavior. Similarly, the affect control theory suggests the cognitive appraisal to precede the emotions (Lawler and Thye 1999). This study therefore assumes that:

*Hypothesis 1: Cognitive CBR has a positive impact on affective CBR.*

This bidimensional conceptualization of CBR would facilitate practitioners to better understand the structure of CBR and to make their reputation management policies more effective in getting the desired relational and behavioral responses from their target customers.

### **Reputation and trust**

Well-reputed firms win customers' trust (Morgan and Hunt 1994; Eastlick et al. 2006; Walsh et al. 2009b), where trust refers to the *confidence in an exchange partner's reliability and integrity* (Morgan and Hunt 1994, 23). Higher perceived cost of opportunistic behavior (self-interest seeking) and fairness towards customers support a well-reputed organization to become a trustworthy one (Ganesan 1994; Groenland 2002; Gulati 1995). Reputation is such a valuable asset that takes long time and consistent efforts to be built (Hall 1992) –yet can be easily destroyed; therefore, people do not expect the well-reputed firms to engage in negative behaviors putting their long-term efforts at stake.

Many studies have used only cognitive dimension of CBR to test CBR-Trust relationship (e.g., Eastlick et al. 2006; Walsh et al. 2009b). However, some of the scale items

used for measuring CBR in such relationship represent affective dimensions, for example, *high regard for the company* (Jeng 2011; Johnson and Grayson 2005), where the results of these studies support the positive relationship of CBR with customer trust. We hypothesize that:

*Hypothesis 2: Cognitive CBR has a positive impact on customer trust.*

*Hypothesis 3: Affective CBR has a positive impact on customer trust.*

Several studies have already tested our second hypothesis (e.g., Eastlick et al. 2006; Walsh et al. 2009b). However, to compare the relative contribution of cognitive and affective CBRs towards customer trust, it is essential to include this hypothesis in the conceptual model (Figure 1). Similarly, specifying the type of perceived risk mediation (i.e., full, partial or no mediation) requires examining the direct effects of CBR on customer trust (H2 and H3) along with its indirect effects (Zhao, Lynch, and Chen 2010). Moreover, testing Hypothesis 2 in a different research context is another argument for including it in the conceptual model (Figure1).

As this study hypothesizes that affective CBR relates positively to cognitive CBR (H1) and customer trust (H3), if proved, hypotheses 1 and 3 may also suggest affective CBR as a mediator in the relationship between cognitive CBR and customer trust. Based on the learning hierarchy model (Ray 1973), affect control theory (Lawler and Thye 1999) and available research evidence, the direct relationship of cognitive CBR with customer trust needs further investigation in presence of affective CBR as a separate component of corporate reputation. We hypothesize that:

*Hypothesis 4: Affective CBR mediates the effect of cognitive CBR on customer trust.*

### **Customer perceived risk as a mediator between CBR and trust**

Customer perceived risk refers to the loss expectancy that customers determine subjectively (Mitchell 1999). Taylor (1974) made an attempt (in terms of *systematic explanation* of the concept) to theorize risk-taking in consumer behavior, suggesting that the behavior centers on the question of making a (right) choice due to the fact that the choice outcome was unpredictable in most of the situations. This uncertainty about future outcomes of exchange results from incomplete or asymmetrical knowledge of buyers (Johnson and Grayson 2005). Therefore, facing risk, handling it and getting its influence would be indispensable for a consumer.

Testing the mediating effects is critical to improve the comprehension of causal relationships (Bartikowski and Walsh 2011). Discussing the nature of perceived risk's association with customer trust and CBR respectively, provides the rationale to test its mediating role. Reduction in perceived risk serves as a necessary antecedent for developing customer trust (Mitchell 1999). During a purchase decision, a buyer may expect various types of undesired outcomes, represented by: functional risk; physical risk; financial risk; time risk, psychological risk and social risk (Schiffman et al. 2008). Similarly, perceived opportunistic behavior of the service provider can be an important risk in the buyer's consideration while entering a relationship (Morgan and Hunt 1994). The organizations utilize the formal contractual arrangements between exchange parties as effective means of handling such uncertain or risky situations, and for further development of customer trust (Williamson 1993). These contractual safeguards include, for example, insurance agreements and guarantees (Mitchell 1999), which minimize the level of customer perceived risk. However, the usage of such contractual safeguards is higher in relationships between firms, as compared with the B-to-C relationships (Johnson and Grayson 2005). This makes the risk



management activity relatively more crucial for the development of customer trust in B-to-C settings.

The presence of risk is considered a prerequisite for trust to exist in a business relationship (Grabner-Kraeuter 2002). Absence of risk or a state of complete certainty about the future outcomes of a decision makes the customer trust redundant (Johnson and Grayson 2005). In the contexts of green marketing and environmental management, Chen and Chang (2013) reported it challenging to win trust in order to develop long term relationships with customer stakeholders. They further found the reduction in green perceived risk positively related to customer's green trust. Similarly, in the setting of online retailing, the privacy concerns of the customers related to the use of their personal information were found to negatively influence the customer trust (Eastlick et al. 2006). The above discussion suggests a negative relationship of customer perceived risk with the level of trust in the service provider. We hypothesize that:

*Hypothesis 5: Customer perceived risk has a negative impact on customer trust.*

Particularly in B-to-C settings, customers handle or reduce perceived risks by using various strategies, for example, by seeking information, selecting well-known brands and relying on store images (Schiffman et al. 2008). Among these strategies, evaluating corporate reputation plays an important role in reducing perceived risks (Sun 2014) that can be explained through the economic and institutional perspectives. From an economic perspective, organizations aim to earn economic returns by reducing the customers' uncertainty about quality of products or services through their activities based upon reputation (Rindova et al. 2005; Roberts and Dowling 2002). Similarly, from an institutional perspective, well reputed organizations exchange the information with such prominent social actors (e.g., ranking organizations) whom the majority of their stakeholders follow. It also facilitates the

organizations to reduce the uncertainty of stakeholders about the organizational attributes. Positive CBR, where customer stakeholders evaluate an organization as competent and financially strong, supports minimization of perceived risk, as they expect such an organization to act responsibly in utilizing its resources (Walsh et al. 2009a).

Studying wine purchase decisions in restaurants, Lacey et al. (2009) pointed to the influence of enhancing cognitive CBR as an important risk-reduction strategy. Similarly, from the settings of electronic commerce, Kim, Ferrin, and Rao (2008) considered positive affective CBR as a signal that a firm had honored its past commitments to customers, and thus made the firm a less risky option for customers to deal with. Therefore, we argue that:

*Hypothesis 6: Cognitive CBR has a negative impact on customer perceived risk.*

*Hypothesis 7: Affective CBR has a negative impact on customer perceived risk.*

The hypothesized direct relationships of customer perceived risk with both the cognitive and affective dimensions of CBR (as antecedents of perceived risk) and customer trust (as an outcome of perceived risk) also suggest an indirect association between CBR and customer trust through the mediation of customer perceived risk. Such an indirect linkage might be stronger (weaker) than the direct linkage between CBR and trust. Testing hypotheses H1 to H7 (excluding H4) will help assess this indirect relationship.

Customers expect a well-reputed organization to seek mutual interest of both the exchange parties, face high costs of working in untrustworthy manner, and, signal competence, honesty and quality of products (Doney and Cannon 1997; Gulati 1995; Keh and Xie 2009; Rindova et al. 2005). Such customers' perceptions about reputed organizations are expected to develop their trust by reducing the perceived risk associated with: their purchase decisions and building their relationships with reputed organizations. We hypothesize the mediating role of perceived risk in the relationship of CBR with customer

trust. Based on the extant literature, Eastlick et al. (2006) tested *privacy concerns* (as a single type of perceived risks) in relation to the cognitive dimension of CBR and customer trust.

This study tests multiple aspects of customer perceived risks in relation to both the cognitive and affective dimensions of CBR and customer trust.

*Hypothesis 8: Customer perceived risk mediates the effect of cognitive CBR on customer trust.*

*Hypothesis 9: Customer perceived risk mediates the effect of affective CBR on customer trust.*

## **Methods**

### *Sampling and Data Collection*

In this study, we selected three fast-food restaurants (KFC, Subway, and McDonald's) operating in Pakistan, based on their wider market presence (i.e., number of operating service outlets). Pakistan, with the sixth largest population in the world is home to over 180 million residents according to the 2011-2012 Pakistan Economic Survey (Ministry of Finance, Government of Pakistan 2012) and it represents a potent consumer market from the developing world. Moreover, a large presence of multinational and local fast food service providers makes Pakistan an appropriate context to study the CBR and its relationship with customer-outcome variables.

Using the survey method for data collection, the target sampling unit was a customer of any of the selected restaurants, whose age was 15 or above. Fifteen years is the economic age in Pakistan and it ensures that a customer is capable of responding to a survey questionnaire properly. The survey was conducted in the city of *Lahore* that is the most populous city in the most populous province (i.e., *Punjab*) of Pakistan. After shortlisting one outlet of each selected restaurant for data collection, a team of four business graduates was

hired for conducting the survey. The customers were recruited at the premises of the restaurants where they filled in the paper-and-pencil questionnaires.

Systematic sampling was used to select respondents (Gilbert et al. 2004; Chandon and Wansink 2007) and the business graduates were instructed to approach every fifth customer served from the service counter. They were able to collect 174 properly completed questionnaires in four days during different day and night hours.

To prepare the data for analysis, missing values were treated through mean replacements. A major issue was that of misresponse; some of the customers' responses were contradicting their other responses for the same construct (Swain, Weathers, and Niedrich 2008). Following Fombrun et al. (2000), those contradictory responses were eliminated from the data set. The resulting sample consisted of 156 respondents. Table 1 presents the demographic characteristics of those respondents. Youth (18-25 years) is the major age group (37.8 percent) of sample respondents. Almost half of the respondents (45.5 percent) possessed a bachelor's degree or equivalent that is not surprising for the given age profile of sample respondents and survey location of urban area. Most of the respondents were *single* (55.1 percent) and the majority of the surveyed customers (85.3 percent) usually visit the restaurants with family or friends a fact that corresponds to the collectivist culture in Pakistan (Hofstede 2012).

[INSERT TABLE 1 ABOUT HERE]

### *Measurement of key constructs*

This study follows the scale development procedure recommended by Churchill (1979). All of the constructs were adapted from the existing literature and they were pilot tested in the Pakistani context. For the measurement of the cognitive CBR, this study adapted the scale

items from the reputation scales developed by Fombrun et al. (2000) and Walsh et al. (2009b). Affective CBR was measured with scale items adapted from Fombrun et al. (2000); Schwaiger (2004); Eberl and Schwaiger (2005), and, Einwiller et al. (2010). The measures for customer trust were derived from Eastlick et al. (2006); Walsh et al. (2009b), and, Jeng (2011). The measures for customer perceived risk were adapted from Lacey et al. (2009), who studied the customer perceived risk in the context of the food industry. These risk measures corresponded to the functional/economic risk category (Taylor 1974) consisting of perceived functional, physical, financial and time risks (Schiffman et al. 2008). Another risk category of psychosocial risk (a combination of psychological and social risks; as proposed by Taylor 1974) is not included in this study due to measurement difficulty (Mitchell 1999) in comparison with other risk types, particularly, in the context of fast-food services.

#### *Common method bias*

Common method bias was a major concern while developing the questionnaire as it might have harmed the validity of measures and thus it could have led to misleading results. Following recommendations from Podsakoff et al. (2003), several measures were taken to overcome this potential problem. First of all, different response formats were used for different variables in the questionnaire; for example: Five-point Likert scales for measuring CBR (adapted from Walsh et al. 2009b), whereas, Seven-point Likert scales for measuring customer perceived risk (adapted from Lacey et al. 2009). This remedy helps through reducing the respondents' ability to use previous answers or short-term memory for answering the remaining questions (Podsakoff et al. 2003).

Second, the length of the questionnaire was kept short in order to avoid respondents' boredom or fatigue that might have led to lacked accuracy in the responses through reduction in their cognitive effort while answering the questions (Lindell and Whitney 2001). Thirdly,

two different versions of the questionnaire were prepared with different placement of two major sections. Translation of both the versions into national language of Pakistan (i.e., Urdu) was employed to improve the respondents' understanding. Fourth, collection of survey data at different points of time (i.e., different days of the week, and different hours in a day) aimed to control the common method bias originating from the context of obtaining the measures. Moreover, the survey questionnaire assured the respondents about their anonymity and the fact that there were no right or wrong answers, so as to minimize their intentions (if any) to be socially desirable, lenient or acquiescent in their responses (Podsakoff et al. 2003). Most importantly, all the construct measures were entered jointly into exploratory factor analysis for applying the Herman's one factor test (Chang, Van Witteloostuijn, and Eden 2010). No single general factor/component was accounting for the majority of the variance, which also supported the absence of common method variance.

#### *Questionnaire development*

The pre-testing of the questionnaire intended to improve its design features (Bolton 1993). For this purpose, four business school faculty members, one faculty member of a university linguistic department and five actual customers of selected fast-food restaurants were approached. Based upon their feedback, the following modifications were incorporated in the questionnaire draft and the revised questionnaire was tested by approaching four actual restaurant customers.

1. In the contents of the questionnaire, instead of using a general term 'i.e., your selected restaurant', the name of a selected restaurant (for example, McDonald's) was used. It was suggested to help in making the statements/questions clearer and easily understandable for the respondents. No other customization was made with respect to a particular restaurant.

2. Wording of a few questions was revised to make them appropriate for the particular context of the study.
3. Two scale items (i.e., ‘admiration and respect for the company’ measured affective CBR, and, ‘the restaurant would be honest and truthful’ measured customer trust) were identified as double-barreled and each was split into two items.

The back-translation was used for translation of the resulting questionnaire into the national language of Pakistan. The services of two experienced bilingual faculty members of social sciences and business studies were availed for this purpose. However, it was decided to deliver both the *Urdu* and *English* language questionnaire versions to every respondent due to the presence of selected fast-food restaurants in major urban areas where the literacy rate was higher and *English* language was either the basic mode of study or an essential part of curriculum from the early education stages. During the translation stage, the focus was not only on the literal or direct translation, but also on the conceptual equivalence and comprehension by the respondents (Douglas and Craig 2007). Testing the questionnaire’s *Urdu* version by approaching five actual customers of a selected restaurant pointed us to make few minor modifications in the questionnaire.

#### *Data analysis technique and mediation analysis*

This study uses AMOS 19 to carry out structural equation modeling (SEM) analysis. For mediation analysis, the study follows the revised guidelines provided by Zhao et al. (2010). The significance of indirect effects was tested to establish the mediation, instead of testing three regression functions (as suggested earlier by Baron and Kenny 1986). For this purpose, bootstrap procedures were used and, accordingly, the nature of mediation was decided.

## Results

To assess the internal consistency of selected measures, Cronbach's alpha and item-to-total correlation statistics were computed for each construct. One scale item that measured affective CBR (i.e., *you can better identify yourself with the restaurant as compared with other fast food restaurants*) was deleted due to low item-to-total correlation (0.45). The Cronbach's alphas for all the constructs were well above the theoretical benchmark of 0.7 (Hair et al. 2010).

Exploratory factor analysis (EFA) were carried out to deliver any underlying dimensions of the constructs, and to eliminate the scale items with poor factor loadings, cross loadings or poor communalities, so as to make them more meaningful (Hair et al. 2010). For this purpose, EFA for each construct was separately conducted using *principal component analysis* extraction method and *varimax* rotation technique. At first, three measures of sample adequacy were tested to ensure that sample size (n=156) was sufficient enough to apply factor analysis. These three measures included KMO test, measures of sample adequacy (MSA) on anti-image matrix and Bartlett's test of sphericity (Hair et al. 2010; Malhotra 2010). The sample size was sufficient for the application of SEM, as suggested by Anderson and Gerbing (1984), and, Iacobucci, Saldanha, and Deng (2007). Even for a smaller sample of 50-100, SEM could have rightly served its purpose (Iacobucci 2010).

EFA provided one-factor solution for each of the cognitive CBR, affective CBR, customer trust and customer perceived risk. These factor solutions were acceptable following the theoretical benchmarks suggested by Hair et al. (2010), which include: factor loadings and communalities exceeding 0.5 for each scale item, and, no incidence of cross-loading.

### *Measurement model evaluation*



The purpose of evaluating the measurement model is to test the validity and reliability of the constructs through confirmatory factor analysis, along with assessing the fitness of model. All of the scale items had significant loadings (at 0.001 level) on their respective constructs. The composite reliabilities and average variances extracted exceeded the theoretical benchmarks of 0.7 and 0.5 respectively (Bagozzi and Yi 1988; Malhotra 2010) for all of the constructs, except for the cognitive CBR for which average variance extracted was marginally below the theoretical benchmark (0.49 with the composite reliability of 0.74). These results ensure the convergent validity of the study constructs. Table 2 reports the standardized factor loadings, composite reliabilities and average variances extracted corresponding to the analyzed constructs.

[INSERT TABLE 2 ABOUT HERE]

To confirm discriminant validity, average variance extracted for a construct should be greater than squared correlation of that construct with every other analyzed construct in the model (Malhotra 2010). The study constructs showed discriminant validity using this criterion. Table 3 presents the inter-construct correlation coefficients along with the results of discriminant validity analysis. The commonly used fitness-of-model indices (CMIN/DF=2.204; CFI=0.92 and RMSEA=0.088) also approached/ exceeded the theoretical benchmarks (Bagozzi and Yi 1988; Hair et al. 2010).

[INSERT TABLE 3 ABOUT HERE]

*Structural model evaluation and hypotheses testing*

The bootstrap procedures were used to compute direct, indirect and total effects with the bootstrap sample size of 2000 (Zhao et al. 2010). Table 4 reports the results for the hypothesized paths corresponding to hypotheses 1 to 3, and, 5 to 7 (Figure 1-Structural Model 1), whereas the resulting model (see Figure 2-Structural Model 2) displays only the significant direct paths:

[INSERT TABLE 4 ABOUT HERE]

[INSERT FIGURE 2 ABOUT HERE]

Structural Model 2 supports the four significant direct relationships (as in the hypothesized directions) between: (1) cognitive CBR and affective CBR (positive); (2) affective CBR and customer trust (positive); (3) perceived risk and customer trust (negative) and (4) cognitive CBR and perceived risk (negative). However, two hypothesized direct relationships between: (1) cognitive CBR and customer trust and (2) affective CBR and perceived risk lacked significance. The results offer support for hypotheses 1, 3, 5 and 6, while rejecting the hypotheses 2 and 7.

For mediation effects, the results in table 4 and structural model 2 suggest the indirect relationship between cognitive CBR and customer trust. There are significant indirect and total effects of cognitive CBR on customer trust; whereas, the direct effect is not significant in this path. Moreover, cognitive CBR has significant direct and total effects on both the affective CBR and perceived risk, whereas, both the perceived risk and affective CBR have significant direct and total effects on customer trust. Therefore, the results suggest that customer perceived risk and affective CBR are mediators in the relationship between cognitive CBR and customer trust (hypotheses 8 and 4 respectively). The mediated (indirect)

effect of perceived risk in the relationship of affective CBR with customer trust (hypothesis 9) lacks significance.

To further investigate the relative contribution of both the affective CBR and perceived risk as mediators in the cognitive CBR-Trust relationship, the following two structural models A and B (see Figures 3 and 4 respectively) were derived from structural model 2 and they were estimated independently (see results in Table 5):

[INSERT FIGURE 3 ABOUT HERE]

[INSERT FIGURE 4 ABOUT HERE]

[INSERT TABLE 5 ABOUT HERE]

The results in Table 5 report the higher significant indirect effect of cognitive CBR on customer trust as mediated by affective CBR (0.25) in comparison with that by perceived risk (0.13). It looks plausible, as affective CBR is another dimension of CBR and it has the highest significant direct effect (0.58) from the cognitive CBR. Moreover, the direct effect of affective CBR on customer trust (0.44) also exceeds the direct effect of perceived risk on customer trust (-0.25) in significance and magnitude.

The direct effect of cognitive CBR on customer trust remains significant in both models A (Figure 3) and B (Figure 4) in presence of indirect significant effects (both the direct and indirect effects point at the same direction), which supports the *partial (complementary) mediation* of customer perceived risk and affective CBR, respectively (Zhao et al. 2010). However, in structural model 2 (Figure 2), the direct effect of cognitive CBR on customer trust loses significance in presence of significant indirect effect and both the mediating variables (affective CBR and perceived risk) in the model. It reflects the (joint)

*indirect only/full mediation* of affective CBR and perceived risk in the cognitive CBR-Trust relationship (Baron and Kenny 1986; Zhao et al. 2010).

## **Discussion and conclusions**

### *Research and Managerial Implications*

This study provides convincing evidence that cognitive CBR and affective CBR influence the customer trust differently. The affective CBR is found directly associated with customer trust, whereas, cognitive CBR relates indirectly with customer trust through the mediating effects of affective CBR and customer perceived risk. The varying nature of relationships with the outcome variables and the discriminant validity make both the CBR components empirically distinguishable, supporting the bidimensional conceptualization of reputation. Therefore, any attempt to examine the effects of CBR should treat its cognitive and affective components separately from each other.

Another important finding of this study is related to the mediating effect of customer perceived risk in CBR-Trust relationship. Customer perceived risk mediates the relationship of cognitive CBR (not of affective CBR) with the customer trust. The discriminatory mediating effects of perceived risk can be attributed to the common element of *cognition* in both the cognitive CBR and the perceived risk constructs. In fact, the types of customer perceived risk that include functional, physical, financial and time risks are expected to strongly associate with cognitive, rather than affective part of customers' evaluations.

Comparing our research findings with those of the extant literature, the widely established, direct and positive CBR-Trust relationship (Eastlick et al. 2006; Jeng 2011; Walsh et al. 2009b) receives empirical support for the affective, and not for the cognitive component of CBR in this study. Lack of the researchers' attention to use the bi-dimensional conceptualization of CBR and to test the role of customer perceived risk in the CBR-Trust

relationship may explain such deviation of our research findings. This study, therefore, enhances the understanding of how reputation develops customer trust in service provider organizations.

Consumers may evaluate the brands using their experienced emotions instead of declarative information (Esch et al. 2012). Consequently, customer decisions may not always be based upon knowledge or cognitive effort, but rather affect can play an important role in the decision-making process (Shiv and Fedorikhin 1999). Understanding the role of affect for the customer-outcome variables, such as customer trust, can help managers to develop effective marketing strategies. These strategies targeting the desired consumer behavior can be useful, for example, in the area of market segmentation (based upon attitude-related conceptualization of CBR) and in the management of long-term relationships with customers. The findings from the extant literature restrict the managerial implications to the cognitive dimension of CBR. However, our findings suggest that reputation management policies should distinguish between cognitive CBR and affective CBR, as both these reputational aspects behave differently in developing customer trust. Affective CBR directly influences customer trust, whereas, cognitive CBR has an indirect impact on trust. We suggest that policies that involve affective CBR should focus on building customer trust directly, whereas, policies that involve cognitive CBR should emphasize on managing the mediating constructs in order to develop customer trust.

Our findings have important implications for designing marketing communication strategies. We suggest that fast food marketers give due consideration to the affect-based appeals aiming to win the trust of targeted customers. They may not be able to develop the trust by only stressing upon the cognitive aspects and risk-reduction strategies. Nevertheless, our recommendation should not be misinterpreted as to ignore or underrate the cognitive CBR. The focus of managing the cognitive CBR should rather be to develop the positive

affective evaluation of the organization by its customers and to reduce their perceived risks. It will further lead towards the development of trust in the service provider.

The success of any relationship depends upon the degree of trust between the parties (Arnott 2007). The findings related to trust development are valuable due to the central role that customer trust plays in relationship marketing and in gaining other significant marketing outcomes. Trust earns customer commitment (Eastlick et al. 2006), makes customers cooperative (Morgan and Hunt 1994) and helps to win their favorable purchase intentions (Johnson and Grayson 2005), which can lead towards gaining the desired behavior from the target market. In this regard, managers should also learn about the theoretical determinants of CBR and customer perceived risk (two antecedents of customer trust in our conceptual model) to make their reputation management policies more effective for their relationship marketing efforts.

#### *Limitations and future research*

Several limitations in this study highlight the potential opportunities for future research. *First*, this study focuses on the *customers*. However, other stakeholder groups (e.g., employees, investors, suppliers and community) are also strategically important. Exploring the ways that they develop reputational evaluations and they tend to trust their respective organizations can be useful in formulating broader policies for reputation management. *Second*, future researchers should test the robustness of our conceptual model in other industry settings. In some industries customers perceive higher selection risk due to lower tangibility, for example retail banking and telecommunication as compared with the fast-food industry (Walsh, Bartikowski, and Beatty 2012); our results are expected to vary particularly with respect to the mediating role of customer perceived risk. *Third*, the cross-sectional design of this study does not inform about how the various constructs and hypothesized inter-relationships among

them evolve/ change over time. Future studies with longitudinal designs may provide valuable insights in this regard.

In conclusion, to get a better understanding of how CBR relates to its outcomes, the differential role of different CBR components and mediators need investigation. Based on the extant literature, this study incorporates cognitive CBR and affective CBR along with the mediating effects of customer perceived risk. Revealing the distinguished effects of both of the CBR components on customer trust is a major theoretical contribution of this study. Moreover, the mediating role of perceived risk found in the cognitive CBR-Trust relationship provides new insights to the practitioners for effective management of reputation and trust. This study may also encourage future researchers to further explore the affective component of CBR, and, mediators in the relationship of reputation with its outcomes.

## Note

<sup>1</sup> Behavioral intentions (conation) as the third component of attitude (in general) have been studied/ found as a consequence of cognition and affect components (Bagozzi 1981; Einwiller et al. 2010; Johnson and Grayson 2005; Lewis and Weigert 1985), or, as a consequence of attitude, for example in the ‘theory of planned behavior’ (Ajzen 1991). This study aims to further explore the CBR-Trust relationship, therefore, the conative component of attitudes has been deliberately kept out of the conceptual model here. It does not eliminate the importance of this attitudinal component; rather this can be studied in the future by extending our conceptual model.

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