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Autor: Fieseler, Christian / Hoffmann, Christian Pieter

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Christian Fieseler & Christian Pieter Hoffmann*

LINKING CORPORATE REPUTATION AND JOURNALISTIC PERCEPTION IN CAPITAL MARKETS

The attitudes and actions of a company's various stakeholders are substantially influenced by the company's corporate reputation. As intermediaries, journalists are a tremendously important stakeholder group in the formation of this reputation – their perception and description of a company's features influence the reputation held by many other stakeholders. The better part of a company's reputation therefore is determined by its communication efforts. In order to successfully impact stakeholder perceptions, a company has to understand which factors actually determine its reputation. Our qualitative survey of business and financial journalists explores this link between corporate reputation and journalistic perception in the context of capital market coverage at the Frankfurt Stock Exchange.

Keywords: reputation, financial and business journalism, communication management.

* University of St. Gallen, Institute for Media and Communications Management, christian.fieseler@unisg.ch, christian.hoffmann@unisg.ch

1. Introduction

Financial and business journalism is one aspect of the journalistic profession often ascribed with tremendous societal and economic relevance. The significance of the impact of business journalism can be followed back to such historical examples as the so-called "South Sea-Bubble" or the "Tulip Crash" in the 18th century (Kynaston 1995). More recently, the massive stock market boom in the media and technology sector – which escalated to a stage where even the smallest rumors could result in massive share price explosions, followed by drastic corrections – was partly ascribed to the effects of the media coverage of these sectors (Shiller 2000, 2002; Williams 2001; Thrift 2001). Today, financial journalists are considered by many economists as actual capital market participants (Shiller 2000). From a company's perspective in turn, the importance of business journalism stems from its intermediary function between the company and its stakeholders (Deephouse 2000; Lounsbury & Glynn 2001; Pollock & Rindova 2003). Even the many new opportunities of direct communication provided by the internet cannot replace this vital role of business journalism. Not surprisingly, publicly listed companies and their management devote a tremendous amount of time and attention to reputation management in the context of media communication.

Past research, however, has largely neglected the factors and mechanisms that affect the judgement of business and financial journalists as a specific target group in reputation management. Therefore, we seek to broaden the understanding of this particular domain of journalism and reputation management by presenting some empirical findings based on explorative interviews with business and financial journalists covering companies listed at the Frankfurt Stock Exchange. In our interviews, we sought to identify the mechanisms and schemas that shape financial journalists' perceptions of a company as well as their link to a perceived corporate reputation. The evidence suggests that a company's reputation among financial journalist is largely based on non-financial factors, which underscores the notion that a company's reliability, stability and trustworthiness are highly relevant in the domain of capital markets. Therefore we believe that our findings, although qualitative in nature, are conducive to the advancement of the understanding of reputation building in this arena.

2. Theoretical Framework

2.1. News Journalism and Reputation

The media record as well as influence public knowledge and opinions about companies (Deephouse 2000: 1095). Agenda-setting theory in particular proposes that the media coverage of certain issues raises the salience of these issues in the public's agenda (McCombs & Shaw 1972). It is worth mentioning that, as Carroll (2004) observes, the research in this domain in the past 30 years has largely neglected the specific agenda of business news in favour of the coverage of politics and public life (ibid.: 19). However, its crucial theoretical concept, namely the transfer of salience from the media agenda to the public agenda, is equally applicable to the subject of business communication (Carroll & McCombs 2003: 36).

Fombrun and Shanley (1990: 240) observed that "the media themselves act not only as vehicles for advertising and mirrors of reality reflecting firms' actions, but also act as active agents shaping information through editorials and feature articles." Deephouse (2000: 1097) added the notion that the media provide a forum in which companies and stakeholders debate about corporate conduct and performance, thereby also determining corporate reputation. However, as Wartick (1992) reminds us, managing corporate relationships with the media is not an easy task, since it encompasses a continual assessment of the various tradeoffs between media influences on multiple stakeholder perceptions (ibid.: 48).

From the individual journalist's perspective, a thorough, unbiased recording of events, issues and opinions about companies can be considered an important practice norm. The extent to which journalists actually follow this aspiration, though, may depend on a number of factors that are beyond the scope of this paper. The role of journalists has been described as a pedagogical one, as they are believed to have access to more information and thereby more rational insight than the average citizen (Donsbach 1982: 59). The authority enjoyed by the journalistic profession notwithstanding, the notion of an unbiased representation of facts through journalism should not be overestimated, as a range of diverse incentives and obligations influence the work of journalists.

Based on the realization that the media affect the public perception of a company, the crucial question remains, which factors actually determine the perception and reputation of a company among business journalists? Despite some earlier work by researchers such as Tunstall (1971), there has been little academic discussion of the characteristics and peculiarities of this specific area of journalism. One aspect that sets business and financial journalism apart is the fact that, in addition to commenting on current events as they relate to companies, it is also expected to reflect on the market valuations of the companies' shares. Financial journalists consider the appropriateness of company evaluations based on whatever information is readily accessible on the companies' finances and operating environment (Doyle 2006: 442). Therefore, many reporters that operate successfully in this particular domain exhibit both an aptitude for and interest in the disentanglement of complex financial information. Still, as we will show, non-financial company factors play a significant role in the perception and formation of a corporate reputation within this target group. But before we take a closer look at the examination of these factors, we will provide a short discussion of the reputation concept and its importance in the domain of capital markets.

2.2. Nonfinancial Aspects of Reputation

The importance of collective judgements on a company has been repeatedly stressed by different strands of scientific research. In general, it is held that a company's success and value is strongly influenced by its emotional and psychological appeal to its corporate audiences or in other words, by the degree to which stakeholders instinctively like, respect and trust the company (Shiller: 2000). A company's "reputation" is one possible concept for the description of such collective judgements. Fombrun and Shanley (1990) defined reputation as a cognitive representation of a company's actions and results that crystallizes the firm's ability to deliver valued outcomes to its stakeholders. Such a representation is usually not a unanimous, monolithic concept, but rather a multifaceted construct including a plurality of perceptions and representations around a company (Dowling 2001). It is believed to help a company attract customers and facilitate repeated purchases, improve a company's ability to recruit talented employees and to enhance favourable treatment by the media (Fombrun 1996, 2002; Fombrun & van Riel 2003). A company's reputation has also been shown to have an impact on investment decisions (Dowling 1986). A good reputation establishes trust and credibility with a company's stakeholders (Fombrun, Gardberg & Barnett 2000; Larkin 2003) and thereby reduces the impact of corporate crises (Gregory 1998; Knight & Pretty 2000). For these reasons, a company's reputation can be seen as an indicator for its future success (Fombrun, Gardberg & Barnett 2000). Accordingly, the importance of managing its corporate reputation has been recognized as a core objective of a company's communication efforts.

With regards to the specific context of financial markets, the importance of reputation as a concept or model of collective judgement in a company's relations to capital market participants has been widely recognized. Studies have shown that a favourable corporate reputation helps a company to become an "investment of choice," enhancing its ability to attract capital at lower costs, thus generating a price premium for the company's shares (Fombrun 2002; Larkin 2003). A good reputation thereby increases investor loyalty and reduces share price volatility, even in times of a crisis. The effects of a favourable reputation can thereby be said to be, at least, twofold. First of all, trust in a company also implies or encompasses trust in that company's communication and disclosure. Faced with information asymmetries and the challenge of uncertain future developments of a company, capital market participants will tend to "economize" on their research efforts towards a company, if that company has a positive reputation. The financial community is much more willing to believe in the announcements of such a company. Investors and analysts will rely more heavily on a company's forecasts and estimations, if said company is trusted and respected. Capital market participants will show higher levels of loyalty to companies with a positive reputation – they will tend to stay invested in them, or they will accord them with comparatively positive ratings, even in times of a crisis. Thereby, a positive reputation will have a stabilizing effect on a company's share price development. Secondly, a favourable reputation offers companies a means of positive differentiation on capital markets. Among countless investment opportunities, companies will become an "investment of choice" not solely based on their financial performance, but based on their images or reputations, as well.

Based on this understanding of the relevance of a company's capital market reputation, the question remains, what factors actually contribute to or determine such a reputation. Kuperman (2003) described perceptions of a company as encompassing a range of corporate factors – financial as well as non-financial. A corporate reputation is often seen as a construct consisting of a set of economic and non-economic attributes ascribed to a firm, inferred from the firm's past actions (Weigelt & Camerer 1988). Assessments, as the basis of a perceived reputation, may derive from personal experience, yet equally could result from word of-mouth information, a company's media profile, or its public relations. Reputation includes a historical dimension as it represents "the estimation of the consistency over time of an attribute of an entity based on its willingness and ability to perform an activity repeatedly in a similar fashion" (Herbig & Miewicz 1995: 24). Fombrun & van Riel (1997: 10) similarly emphasise the historical nature of reputation which, they suggest, is a "subjective, collective assessment of an organisation's trustworthiness and reliability" based on past performance. Levitt (1965) then defined corporate reputation in terms of a range of attributes, which he sought to identify. He described a company's reputation from a buyer's perspective as consisting of the extent to which the firm is well-known, reliable, trustworthy, reputable and believable. The fact that a corporate reputation can be said to be a composition of various factors, raises the question of which items to include in an analysis of this concept. The answer to this question necessarily depends on a definition of what stakeholder group's perspective is to be analyzed. Since reputation is – at least to some extent – stakeholder-specific, it is worthwhile to examine the determining factors that drive reputation among a distinct stakeholder group. In the case of our research, we focused on the perceptions of business and financial journalists.

3. Methodology

To successfully manage its reputation, a company has to understand which factors actually shape stakeholder perception. In the case of business and financial journalists, this question is especially relevant, since their representation of the company will influence its perception by many other stakeholder groups, especially among capital market participants. The aim of our research project therefore was to identify those factors that influence the perception of financial and business journalists. The lack of previous empirical research on the role of journalistic sense-making in the context of financial and business coverage suggested the choice of an interpretative paradigm, using grounded theory (Glaser & Strauss 1967; Strauss 1987; Strauss & Corbin 1990). The benefit of an interpretative perspective is that it helps to enrich the understanding of complex, ambiguous, and paradoxical phenomena, and is therefore especially conducive to an explorative research approach such as ours (Lewis & Grimes 1999). Since we could not exclusively build on existing, established theories in the area of this special context, we engaged in an attempt at theory building, which implies the generation of descriptions and subjective insights into events that foster our understanding of particular social phenomena (Denzin 1983). In accordance with this challenge, we applied a grounded theory approach. A distinctive feature of grounded theory is its reliance on the emergence of theories (Glaser 1992).

In the case of our research, the emerging theory is based on qualitative data gathered in explorative, narrative interviews of 22 financial and business journalists from Germany, Switzerland and Austria, covering companies listed on the Frankfurt Stock Exchange (see table 1). The interviews were conducted in mid 2006. The number of interviews had not been decided a priori, but was chosen based on the concept of "theoretical saturation" (Glaser & Strauss 1967). Grounded theory states that if the information gathered in one group of interview partners begins to become redundant, the researcher should look for interview partners with different properties until all necessary information is collected. In other words, we stopped collecting data when we realized that the marginal contribution of additional interviews to our understanding of the phenomenon was negligible.

The creation of the interview guideline was loosely based on experiences from a previous study. It featured a small range of open questions regarding relevant company features in the participant's perception of a company. We tried to omit to mention specific dimensions, in order not to influence our interview partners' answers and explanations or lead their flow of thoughts. All interviews were taped, transcribed and anonymised. The transcriptions from the interviews were then analyzed for comments that could be related to factors affecting journalists' perceptions and judgements. At this stage, each comment, sentence or fragment

Table 1: Journalists Interviewed

Journalist	*Publication*	*Function*
1	Bilanz	Financial Journalist
2	Börsenzeitung	Financial Journalist
3	Börse Online	Financial Journalist
4	brand eins	Business Journalist
5	Capital	Business Journalist
6	Cash	Business Journalist
7	Der Aktionär	Financial Journalist
8	Die Presse	Business Journalist
9	Die Welt	Business Journalist
10	Euro	Financial Journalist
11	Euro am Sonntag	Financial Journalist
12	Financial Times Deutschland	Business Journalist
13	Finanz und Wirtschaft	Business Journalist
14	Focus Money	Financial Journalist
15	Frankfurter Allgemeine Zeitung	Business Journalist
16	Handelsblatt	Business Journalist
17	Handelszeitung	Financial Journalist
18	manager magazin	Business Journalist
19	Neue Zürcher Zeitung	Business Journalist
20	Profil	Business Journalist
21	Süddeutsche Zeitung	Business Journalist
22	Trend	Business Journalist

of a sentence was labelled and subsumed to categories. This coding process was conducted independently by two members of the research team. As the categories and properties emerged, they and their links to the core category provided the theory. Later comparisons showed substantial congruence of the identified relevant comments within the categories. In the end, our analysis resulted in a comprehensive framework of the role and elements of reputation in journalistic coverage of financial markets.

4. Findings

Our research has shown that journalists, when reporting on a company, are engaged in a process that was described by Kuperman (2003) as a process of "sense-making:" Journalists try to make sense of the information provided by the companies, other intermediaries and their own personal experiences. In this context, the information disclosed by a company is no more than one aspect of a more complex image created by journalists through, for example, speaking with the company's management and communications functions, reading or consuming the available media information and reports, comparing companies to members of adequate peer groups and even gaining personal experience by buying and consuming a company's products and services: The assessment of a company is an interpretative exercise (Zuckerman 1999; Taylor & Crocker 1981; Thomas, Clark & Gioia 1993). As part of this process, new data or information are added and compared to existing knowledge or images of a company (cf. Starbuck & Milliken 1988; Fiske & Taylor 1991; Lord & Foti 1986; Neisser 1976; Nisbet & Ross 1980). Obviously, existing perceptions of a company encompass financial as well as non-financial corporate factors (Kuperman 2003). The impact of a company's financial performance on its perceived reputation has been identified in earlier studies carried out on the general population (Fombrun et al. 2000; Fombrun & van Riel 2004). We therefore concentrated primarily on non-financial factors.

Our analysis of contributing factors to a corporate reputation among business and financial journalists eventually converged into eight macro-categories: Quality of management, strategy, communication, industry trends, corporate governance, customer & industry relations, corporate culture/employee relations and public affairs. Since our model is descriptive in nature and based on qualitative data, its main benefit can be seen in identifying key factors of influence – it does not rank these factors according to relevance. Still, in order to enhance the usability of our results, we will try to present and describe the eight categories in a sequence that we believe mirrors their relevance in the perception of our target population, as judged by the emphasis put on them in the interviews.

4.1. Quality of Management

The quality attributed to a company's management has proven to be a tremendously important contributing factor to a company's reputation among business journalists. While the past performance and future strategic plans of a company are highly relevant to its perception, journalists tend to judge these factors in relation to their trust in and respect for the company's management. The sustainability of past successes and the probability of future achievements are thereby perceived as being heavily dependent on the managerial qualities of the company's leaders.

> "People are easier to grasp, after all, it is them who actually move the company – they are the personified company." (Journalist, interview, July 7th 2006)

When judging a management's quality, journalists look at a management's background, its experiences and track record, its past successes and failures. Elements of this appraisal may also be the managers' education and their reputation within the industry. A personal impression and therefore access to a company's leadership can be said to be crucial to the estimation of a management's capabilities, its business understanding and competence. Journalists' perceptions are also influenced by a manager's personal impression which includes the manager's personal appearance, his rhetorical skills, the level of self-confidence he shows and his charisma. Finally, a management's leadership style and abilities will be considered by business journalists. Leadership, thereby, is considered a vital management skill (see Andrews 1980 & 1987).

> "Is it someone whom you can imagine in that position, does he leave a convincing impression, does he leave an insecure impression, does he know how to communicate?" (Journalist, interview, August 25th 2006)

A company's top management is often seen as the embodiment of a company, not only in the journalists' perception, but also in their descriptions and representations of these companies. Capital market participants expect to see a certain level of excitement about the company's business, a commitment to the company, its strategy and goals.

4.2. Strategy

> "I would call it aptness in their sector – doing things better than others, taking a more innovative path." (Journalist, interview, July 3rd 2006)

Journalists will tend to look for strategies that show certain unique features, a certain level of differentiation. Therefore they prefer strategies that show a level of intellectual independence to one that just follows trends set by its competitors. Innovative strategies will clearly add to a company's reputation.

> "I am interested in their market position – how do they look compared to the market participants. Is the company small and flexible, does it rely on technologies that the big players will only use in a couple of years." (Journalist, interview, July 6th 2006)

When considering a company, journalists are tremendously interested in its products. As in the case of a management team, products show the tangible side of a company, they facilitate the description of a company and its development. Journalists will therefore assess a company's technological position, i.e. the technological strength of a company's products or assets in relation to those of its competitors. Similarly, a company's reputation is strongly impacted by its brands. Journalists are interested in the strength and reach of brands as well as their popularity.

> "A lot of it is the product – a company can't do much about it, but it's mostly the product. You see that very often that if a company offers a popular product, like cars for example, it also gets a certain bonus by the public." (Journalist, interview, August 25th 2006)

Interestingly, the delivery of shareholder value lies at the heart of the evaluation of a company's strategy by business journalists. While a responsible, long-term perspective of a strategy is appreciated, our interview partners left little doubt that the generation of value is a company's prime objective.

4.3. Communication

A company's reputation among financial journalists is positively related to the quality of its financial disclosure. Obviously, a company's communication is a major source of information for the financial community. Eccles & Mavrinac (1995) found that almost 60 % of the capital market participants surveyed reported speaking or meeting with company representatives at least several times a week. Financial journalism is sometimes stereotyped as involving a pro-corporate bias, as though choices made about the content and framing of financial news are governed by a deliberate wish to portray corporations and their activities in a positive light. Recent research results contradict this impression by showing that in covering corporate news, financial journalists tend to be extremely sceptical in their estimation of the reliability of corporate communications. Indeed, some journalists see corporate reportage as prone to favour negative over positive news (Doyle 2006; Tumber 1993). According to our interviews, above all, journalists expect a company to be accessible and, to a degree, also pro-active in its communication efforts. Companies are expected to be open to questions by the financial community. Their openness and willingness to discuss issues brought up by the journalists is highly valued.

> "To me, it's professional if I call them and there is always someone accessible – some companies are very difficult to get to, you will just wait for a call back in vain. Good communications should be accessible, should answer questions that you have and provide good information." (Journalist, interview, July 27th 2006)

Journalists will tend to appreciate communication that is perceived as clear, understandable and coherent. Companies are expected to know the informational needs of the journalists. Overall user-friendliness of the information and data given, as well as their format has an impact on the perceived quality of communication.

> "That they only inform you about things that are actually relevant – I don't want to get to much material and I only want it in the right format." (Journalist, interview, July 12th 2006)

The quality of a company's communication efforts obviously depends on the quality and competence of its staff. Journalists are very sensitive to the communications staff's knowledge of the company, its business and markets. One central aspect of the perceived quality of the communications staff is the reliability and availability of contact persons. A high consistency and low level of staff turnover is highly appreciated.

> "If I have a request and there is some mutual trust, I have a question and I get a clever reply within a certain period of time – I got the feeling that I really have a partner there." (Journalist, interview, July 25th 2006)

4.4. Industry Trends

Although general industry trends usually cannot be influenced by a single company, the perception and reputation of a company is inevitably influenced by the industries it is active in. The company's prospects and its profits will ultimately be impacted by these industry trends. To accurately assess a company, journalists depend on general industry information – therefore, they look at a market's competitiveness, market restrictions, market growth and overall price trends.

> "How does the company look compared to the overall sector, so you have some comparison. What's the market growth, what's the company's growth?" (Journalist, interview, July 27th 2006)

Based on such factors, but also based on collective psychological impressions, sectors or industries will develop a specific image that will impact a company's reputation.

4.5. Corporate Governance

Recently, Corporate Governance has been the object of a range of discussions among practitioners, politicians and scientists alike. Stock market regulations as well as laws have been modified to control companies' shareholding regulations, remuneration policies, disclosure practices and the like. Obviously, scandals caused by defective corporate governance provide plenty of material to business coverage by journalists.

> "Business problems, fraud – that is exciting to investigate, exciting to write, and I also think exciting to consume." (Journalist, interview, June 28th 2006)

Therefore, journalists are interested in the composition of a public company's board, the abilities of its members and a company's appointment policies. Management remuneration has also recently been at the centre of public interest. Journalists try to evaluate the incentive structure offered to a company's management. Finally, the shareholder structure of a company is a contributing factor to a company's reputation as it will influence the perceived stability or volatility of a company. Changes in a company's shareholder structure, e.g. in cases of takeovers or mergers, very often entail media coverage.

4.6. Customer and Industry Relations

To a large extent, a company is not defined by its physical assets or features but by its representation in the minds of its stakeholders. These images are especially relevant on the markets on which it is active. Therefore, business journalists are interested in the images customers, suppliers and competitors hold of a company. The importance of a company's relationship to its customers in the eyes of journalists may partly be ascribed to the fact that these customers may also be consumers of the journalists' products. Suppliers and competitors, in turn, prove to be valuable sources in the investigative work of journalists.

> "A company that has a good product – no matter if it's in the service sector or actually has a tangible product – a good product that is produced in a sustainable way, a good design and so on – naturally that's a reputation bonus." (Journalist, interview, July 25th 2006)

As we have noticed, the strength and reach of a company's brands is perceived as very relevant by journalists. The attraction and retention of customers is no less impacted by their satisfaction with the purchased good or service. Journalists therefore are interested in a company's customer relationships and customer loyalty.

4.7. Corporate Culture/Employee Relations

A company's employee relations are of tremendous interest to journalists. Again, one reason for this may be that many readers are also employees of the companies reported about. Also, stories on a company's employees offer aspects of human interest and immediacy that are believed to increase the audience's level of involvement. On the other hand, employees, in many ways, are the essence of a company. No company could offer a valuable outcome to any of its stakeholders, including its investors, without the talent, effort and dedication of its employees. A company's employee relations may therefore be seen as an important indicator for the development and future prospects of a company.

> "Basically, we have made the experience that our audience is interested in social pieces – everything that deals with employment – their own employment, but also the question of 'how save is my job'?" (Journalist, interview, June 27th 2006)

Similarly, the atmosphere of cooperation between a management and its employees, the influence of unions and the frequency of strikes are seen as relevant factors in the success and prospects of a company.

> "How they treat their employees is also relevant – [company X] is one example, they are really doing good economically, but they don't have a good reputation. They have announced and pushed through their shift abroad in such a radical manner." (Journalist, interview, July 12th 2006)

4.8. Public Affairs

While a company's operations may be determined by its employees and its business success by its suppliers, customers and competitors, the larger development of a company is often based on what is called its "license to operate". More tangible than the general public, governments and regulators as well as banks and insurance providers define the formal and legal grounds, on which a company operates. To differing degrees, journalists therefore judge a company's public affairs to be a relevant factor in its success and future value. Mainly, they will be interested in a company's interaction with public institutions, its ability to reach business objectives in the light of regulators' and government interference. The relevance of a company's public affairs to its reputation will be dependent on the social and ecological sensibility of its operations.

> "I am interested in their overall economic importance, their impact on politics, their interplay with politics etc." (Journalist, interview, July 4th 2006)

Journalists will tend to pay a much larger degree of attention to such topics, if a crisis actually occurs.

5. Discussion and Conclusion

We have seen that the perception of a company by business and financial journalists is heavily influenced by a range of non-financial factors. Based on these factors, a company develops a more or less favourable reputation. Business and financial journalists are faced with the challenging task of adequately portraying the state and development of a company. As a distinctive feature of this journalistic domain, they are also expected to critically reflect on the evaluation of a company on capital markets. Thereby, business journalists are engaged in a "sense-making"-activity, interpreting data and information from a wide variety of sources. Our research results support theories stating that capital market participants' judgements and perceptions are influenced by their attitudes towards companies and the market in general. More specifically, journalists appear to be more inclined to assume the accuracy of company statements (such as forecasts) if they trust, respect and like the respective company (Shiller 2000). Capital market participants appear to "economize" on their analytical efforts in cases in which companies feature a high emotional appeal and instil a feeling of trust in their target groups. This finding is consistent with previous research on corporate reputation which links the positive reputation of a company to an improvement in its credibility (Fombrun, Gardberg & Sever 2000).

From a company's perspective, the relevance of business journalism is largely based on its intermediary function. Business and financial journalists influence a company's perception by various stakeholders, most notably capital market participants. A company's communication, in turn, is a crucial source of information to business journalists. Through its communication, a company can also influence its reputation. In order to positively impact their perception by business and financial journalists, companies need to address issues or factors that actually determine a corporate reputation within this specific target group. Therefore, we believe that our research offers useful indications for reputation building in the context of financial and business media coverage. Further valuable insights into the creation of a positive reputation among business journalists could be gained through a validation and differentiation (ranking) of the identified factors of influence based on a quantitative research approach.

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