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CORPORATE REPUTATION AND ITS ROLE IN THE COMPETITIVE AREA

Abstract

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Content

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Introduction

The paper is structured in four chapters. In the first two chapters I will talk about corporate competition and corporate reputation, highlighting both the role and importance for the good of the business. It seems that the two concepts are linked quite closely and their influence one to another. The way how they do this was detailed in the second part of the paper.

This paper is mainly focused on arguing that corporate reputation plays a significant role in the competitive environment. In particular, it tries to speak about the role of reputation in e-commerce and online competition respectively. In order to achieve this, a comparative study is performed in the companies of the United States of America. Market choice is not random, people from U.S.A. having the largest opening trade online and therefore the largest market for this trade. Choosing a global market was not sufficiently relevant to our study as culture, social status, education and a lot of other actors significantly influence consumer preferences and of course their decision.

The *first chapter* entitled **CONTEMPORARY STATE OF COMPETITION** will be detailed description the contemporary state of competition, an important element of economic theory that illustrates the rivalry between vendors in order to draw customers. With the development of technology, electronic commerce is gaining more ground and thus its importance is undeniable.

The *classical economists* viewed competition as a system that ensures the division of labour between operators and the normal conditions of production, exchange and consumption of goods. Adam Smith says about this that has the role of "invisible hand" performing adjustment of supply and demand in individual interest naturally disciplining economic activity.[1]

Neoclassical economists explain the function that competition should fulfil by the term of perfect competition, that environment where many small firms compete offering the same product and none of them can influence prices or trading conditions. In this case, consumer welfare would be maximized. As a result of a perfectly competitive environment we can recall efficiency of resource allocation, production and distribution of such goods or services that will be provided in the structure and the required volume but at low prices. Regarding monopoly and oligopoly, neoclassical economists view such forms as the barriers to market penetration. We know of course that the concept of perfect competition is an abstract concept and that we cannot find it in the real economy. Over time it was accepted that the advantages outweigh the disadvantages of the real economy, even if its long championed pure and perfect competition, many economists have pointed out, however, by a functional economy.

Competitive strategy or continuous pursuit of victory is the element that is the basis for determining competitive advantage. "Competitive strategy is the act of searching for a favourable competitive position in an industry - the fundamental term of economic competition taking place. It aims to establish a profitable and sustainable position against the forces that determine competitiveness within the industry. "[2]

Along time while technology developed and media appeared, a new form of trade occurred, online commerce. It refers to that form of trading based on electronic data processing including product description, sounds and pictures, with participation of the company and the customers. It means a safe gateway, integrated and flexible delivery of business value by combining different systems and processes driven by matching transactions on the Internet.[3]

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[1] Dreptul concurenței comerciale, Octavian Capățână, Editura Lumina Lex, Bucureşti 1996

[2] Avantajul concurențial, Michael E. Porter, Editura Teora, Bucureşti, 2001, pag 15

[3] Bucur C.M.,Comerțul electronic, Editura ASE, Bucureşti, 2002

The most important feature of this type of trade is global influence. Among the advantages of e-commerce we can emphasises competitiveness, lower costs, individualization of products and services. When we talk about e-commerce we think at selling any kind of object, the only condition being that the product exists.

Wolfinbarger and Gilly[4] have listed some of the benefits and negative aspects of electronic commerce. Among the benefits we can include: convenience, saving time and effort, client accessibility, making better selections, the ability to search a large amount of information, lack queued to take possession of the product, the lack of sellers which sometimes can be uncomfortable by their insistence for the buyer.

Among negative elements Wolfinbarger and Gilly[5] emphasize: products can be analyzed only virtual, the products cannot be touched, palpated and examined or tested, buyer does not fall immediately in possession of the product them being delivered by mail or courier and arrive after a day or more . Also concerning the negative elements, Tan[6] recalls risk that is present for buyer when they purchase a product on the Internet, and Morganosky and Cute[7] talk about security and transfer money from the buyer's card to seller's account.

The *second chapter* entitled **CORPORATE REPUTATION – AN IMPORTANT FACTOR FOR THE COMPETITIVENESS OF THE COMPANY** addresses another important element in economic theory - corporate reputation. Reputation refers to a person's perception on certain intentions or

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[4] Wolfinbarger, M., Gilly. M.C., Shopping Online for Freedom, Control and Fun, California Management Review, vol 43, no 2, 2001

[5] Wolfinbarger, M., Gilly. M.C., Shopping Online for Freedom, Control and Fun, California Management Review, vol 43, no 2, 2001

[6] Tan, S.J., Strategies for Reducing Consumers'Risk Aversion in Internet Shopping, The Journal of Consumer Marketing, vol 16, no 2, 1999

[7] Morganosky, M.A., Cude, B.J., Consumer Response to Online Grocery Shopping, International Journal of Retail and Distribution Management, vol 28, no 1, 2000

rules. Reputation is what ensures the company's performance.[8] However it may happen that reputation is something over which the company has limited control.[9] It can be business partners think over time expressed by thoughts or words,[10,11,12] which is based on trust and ethical attitudes over time.[13] It develops the extent to which expectations met business partners.[14] It can also be business partner's perception of the company's management quality[15] that provides its benefits and challenges.[16] Bromley[17] believes that reputation is an impression shared social consensus about what is considered a firm will behave in a given situation. Fombrun[18] says that reputation is based on a set of community beliefs about company's ability and her desire to meet the interests of different partners.

Reputation is an important asset of the corporation to meet the needs of investors, employees and the public. Warren Buffet said that "It takes 20 years

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[8] Vendelo, M.T., Narrating corporate reputation, International Studies of Management and Organization, vol 28, no 3, 1998

[9] Bromley, D.B., "Psychological aspects of corporate identity, image and reputation", Corporate Reputation Review, vol 3, no 2, 2000

[10] Saxton, K., Where do reputations come from?, Corporate Reputation Review, vol 1, no 4, 1998

[11] Miles, M.P. and Covin, J.G., Environmental marketing a source of reputational, competitive and financial advantage, Journal of Business Ethics, vol 23, no 3, 2000

[12] Gotsi, M and Wilson, A.M, "Corporate reputation: seeking a definition", Corporate Communication: An International Journal, vol 6, no 1, 2001

[13] Ettore, B., The care and feeding of a corporate reputation, Management Review, vol 85, no 6, 1996

[14] Whetten, D.A. and Mackey, A., Identity congruence and its implications for the study of organizational reputation, Business and Society, vol 41, no 1, 2002

[15] Hammond, S.A. and Slocum Jr, J.W., The impact of prior firm financial performance on subsequent corporate reputation, Journal of Business Ethics, vol 15, no 2, 1996

[16] Mahon, J.F. and Wartick, S.L., Dealing with stakeholders: how reputation, credibility and framing influence the game, Corporare reputation Review, vol 6, no 1, 2003

[17] Bromley, D.B., "Psychological aspects of corporate identity, image and reputation", Corporate Reputation Review, vol 3, no 2, 2000

[18] Fombrun, C, "Reputation: Realizing value from the corporate image", Boston: Harvard Business School Press, 1996

to build a reputation and five minutes to destroy it. If you think about that you'll do things differently". What Warren Buffet said makes us to think that the risk is social, people tend to perceive it as a threat and thus lose sight of its dual aspect and not the least that people should react and learn from the mistakes made in the past and of course to improve his behaviour.

Corporate reputation should not be confused with the image or brand. *Image* is the first impression of the company, a kind of snapshot frozen in time. Corporate reputation is a historical and cultural dimension of the image memory business partners acting as a platform to expectations. It is created by business partners in line with expectations and is assigned to an organization. In contrast, the *brand* is manufactured by the company to be sold to a group of business partners and consumers. Brands are much easier to control than reputation.

Reputation is a determinant element in the firm's strategy. Thus, in section 2.2.3 we discussed the need to build a good reputation in order to determine the competitive advantages of the company. We know that a reputable company determines success, so managers consider reputation to be a more and more important asset.

If a reputation is valuable, then any event or action that reduces this value is a form of risk. In this way it is perceived reputational risk in general - an event of loss, is an event that reduces the company's market value rather than growth it. The risk must be controlled and avoided and not encouraged.

Reputation risk can arise from many sources.[19] Financial performance of the company may require that investors continue or not working. In a world where people focus on the environment and the rights of consumers and employees, performance of ethical, social and environment can affect corporate reputation. Thus, firms must be careful how they treat their employees by giving them proper wages and working conditions, offering customers quality products and use different methods of environmental protection. Disgruntled employees may

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[19] Fombrun, C., Gardberg, N.A., Barnett, M.L., Opportunity Platforms and Safety Nets: Corporate Citizenship and Reputational risk, Business and Sociatz Review, vol 105, no 1, 2000

boycott the company's production through strikes or unethical practices. Of course any business partners should not be forgotten. If they disagree with the decisions taken by the company’s management they can boycott or discontinue its business collaboration. Not at least, their reputation has to be positive. Suppliers are another category that may affect corporate reputation. Problems can arise if they are not correct, no commitments, provide quality raw materials at a reasonable price and terms of the contract. Litigation can be an important element that can seriously affect the reputation and good of the business. With the development of different ways of communication in our days news travels faster. Media is thus an important factor in building and in destruction of reputation. Like media, the Internet is another source of creation or destruction of reputation. Through internet, good or bad news or movie can surround the world in just a few minutes and compromise the company.

We know that reputation is an intangible asset of the company. Thus, over time economists want to quantify it. Classifications made over time by economic journals that have had special regard to quality management, product quality, long-term investment value, innovation, financial solidarity, the ability to attract and retain well-trained employees, responsibility towards the company and environment, efficient use of resources illustrated customer opinion on corporate reputation. Although these methods of measuring reputation is based on the opinion of a small group of people and cannot be considered strong enough, but we cannot deny their importance in consumer decision making. For economists, however, are more relevant statistical or econometrical models which incorporate a number of important factors that determine a good reputation.

In the *third chapter*, **CORPORATE REPUTATION AND COMPETITION,** I tried to make my own approach of political party’s competition model during the electoral race. At the beginning of the game the reputation is not known. After a period in the second confrontation of two parties, the party elected and the opposition party are analyzed according to what they said during the election campaign, according with promises they made, according reputation gained in previous period. So, in this electoral race reputation plays an important role for voters.

In short, Tasos Kalandrakis model of political parties is structured as follows: he consider two parties that interact for a time t, it is considered that the electorate is symbolized by M, the party in power is denoted by P, which is two kinds of right or of left; opposition party is $-P$; each of the two parties is made up of people who have two ideological convictions, may be moderate or extreme. Each party knows their accomplishments every time things other players cannot know. Instead, players can reasonably deliver opinions on the likelihood other parties will adopt a moderate or extremist policy. The author says that this opinion will refer to the reputation of the party calling them every beginning of period t and its initial reputation will be b^0. Each time the game is full policy cycle. At first elections when voter M decides whether to re-elect the party that was in power until that moment or not. Then the party elected to government implements a policy. The extremes will choose either an extreme or moderate policy to continue while moderate parties will continue on the same line.[20]

In his work, the author[21] has turned his attention to Markov equilibrium strategies. Given the model structure, the relevant strategic party government summed reputation of both parties.

What I tried to do was to transpose this competition model to economical field. We assumed that the two parties in the electoral struggle may be associated with two companies trying to gain consumer's trust and loyalty. What I want to check is whether the assumptions that Tasos Kalandrakis made in his theorems and propositions are checked in the model of the two companies' competition. Companies that are competing in the market are either from online or from traditional market. At the beginning firms offer customers various goods and services at certain prices. Goods and services are the result of actions taken by

[20] Tasos, K., A Reputational Theory of Two Party Competition, Institute of Political Economy, University of Rochester, 2008

[21] Tasos, K., A Reputational Theory of Two Party Competition, Institute of Political Economy, University of Rochester, 2008

each company, shares that begin with the choice of materials and continues with the choice of suppliers, production line, its employees, packaging and sales, transport. We called these actions taken by the company the production policy. I said in the paper that these policies may result in goods that comply customer's demands or can create products that do not comply with their request. A firm that is chosen by a client in a particular time for trading may be re-elected in the next moment or not. Reputation has an important influence in the re-election of the company. A company with a positive reputation gives more reliable than others.

We consider two firms and buyers interact for an infinite period of time $t = 0, 1,$ ... We note buyers with K, and the two companies, with A the one chosen by the buyer and the R the one rejected by the buyer. Suppose that every time the buyer is forced to choose only between two companies. Those two companies can come either from online market or from traditional market. Products of firms can be considered by the consumer as appropriate qualitative to their demand and are denoted by b or qualitatively inadequate to their demand and are denoted by n. A buyer who interact with the company for the first time will require that the product will have quality $\tau \in \{b, n\}$ because it does not know many details about the product. We assume that the product quality if is appropriate to τ in period t will be the same in period $t + 1$ with probability $p_\tau^a \in [0,1]$. Similarly, if the product is not suitable to τ in period t there will not be in period $t + 1$ with probability $p_\tau^r \in [0,1]$. We assume that those two probabilities satisfy the following conditions: $p_\tau^a > p_\tau^r, \tau \in \{\mathrm{b}, \mathrm{n}\}$ and $p_b^r > 1 - p_n^r$.

Under both conditions, the buyer may remain loyal in the next period to the company that he chose in the first period or not. This is possible due to significant gains registered in the previous period by firms. However, firms that buyer haven't trade before can still make significant efforts to attract him. Also a good type τ is more likely to occur in the next period if in the previous appeared.

Every firm, regardless of the market in which they operate is aware of the quality of the products they sale. Consumers know the details on product quality only after purchases it or based on what other consumers think about the product or about the company. When we refer to the opinion about product quality we will call it *corporate reputation*. At the beginning of a period it will be $rep^t \in [0,1]$ and initial reputation will be denoted by *rep0*.

Each trading period considered will operate as follows: first, buyer K decides whether to continue or not to purchase products from the company that took the previous period, then the company he chose for transaction will implement production policy $x^t \in X$, where $X = \{x_n^O, x_b^O, x_n^C, x_b^C\}$. Depending on the policy chosen by the firm, every time he chooses a certain company, the players also chose a product which may or may not comply his demand and the game goes to the next step. At this stage the buyer choose another firm which can be identical to the one from the previous step or not, the company applies his own production policy and the client choose the one that will satisfy his desires or not and so on.

If in period t is implemented production policy $x_\tau^A \in X$ then the consumer pays $v_\tau^A \in \mathbb{R}$, good products on the traditional receiving $c_\tau^A \in \mathbb{R}$ and best products from online market receive $o_\tau^A \in \mathbb{R}$. The utility of a good purchased we denote by $u > 0$. We assume that although the buyer will purchase a certain strategy as performed during a transaction is only interested in the property they purchase.

Another issue for the customer is the choice of the market. Depending on a number of social, cultural, material issues and especially taking into account the opportunity cost and reliability of a certain company offers customers the choices they make can keep the next stage or not. If a company is set to a certain period, where it will not do anything to maintain or even improve the reputation may not be re-elected in the next step.

Starting from the idea that companies should offer customers better products and they need to improve their reputation day by day and from the idea that the products purchased by the customers come from companies with a favourable reputation, we sought to build a dynamic model of corporate competition for both markets. The equilibrium policies chosen of those firms depend on corporate reputation and on the competitor's reputation.

As the author of the original paper proceeds, we started from the idea that firms have Markov equilibrium. We have seen in this chapter that for a poor equilibrium reputation is not taken into account while in the case of a strong one firms are quite interested in role that reputation play and on the image they formed. The company chosen by the consumer to trade follows a policy that causes production of products that do not meet their demand when it has a poor reputation compared to the reputation of other companies. Except when companies with poor reputations are chosen for trading production policies that determine substandard products wishes of customers are given in the case of equilibrium where both firms reputation is below a certain benchmark or is close in value. In this case, having to choose between two evils, consumers choose the evil more convenient. In other words, when both firms produce goods in accordance with customer demand, the customer will be indifferent what company will chose. If a firm with a good reputation is chosen, competitors will have to make serious efforts to be chosen by the consumer in the next step. If there is a strong balance then customers will choose based on reputation. This equilibrium strategy is determined repeatedly by the dynamic of two completely different production policies. On one hand, this dynamic may cause a turnover located normal limits consistent with the company's reputation and policy production that will be one that will determine the products that do not correspond to the wishes expressed by customers. On the other hand, the growth may lead to production policies that will determine predominantly the relevant product and a particular advantage of the company to the other. It also may be predominantly in the dynamic function of the relative speed is changed preferences during the trading firms or not.

The model built in this chapter is a theoretical one and cannot be applied in practice. This is why in the next chapter we will achieve a less theoretical influence of reputation on the consumer's buy decision and therefore the influence on company's profit.

The *fourth chapter* **INTAKE ESTIMATED REPUTATION ON THE COMPETITIVE POSITION** we analyse the influence of reputation on competition of some companies that perform electronic commerce. To more clearly illustrate this we chose companies in the United States of America because it is the most developed e-commerce market and U.S.A residents are open to this kind of trade. The companies chosen are Amazon and eBay for which we analysed sales in the period 2003 - 2011 and respectively, WalMart and BestBuy for which we analysed sales in the period 2007-2011. According to data from the official websites of the four companies we saw upward trend in sales. The following charts (Figure 1, Figure 2, Figure 3 and Figure4) can clearly show how official sales data are distributed (blue dots on the graphs) and the trend trajectory equation (red dots on the four graphs).

The companies chosen are well known and appreciated in the United States. People builds relationship with a particular company based on direct experience with it - products, investments, customer service, employment, based on the company said - advertising, public relations, marketing, social responsibility and based on the words of others - media, experts, leaders, family, friends. These experiences have different impact on how respondents perceive the company.

Figure 1: Graphical representation of observed values of quarterly sales and company sales trend of Amazon

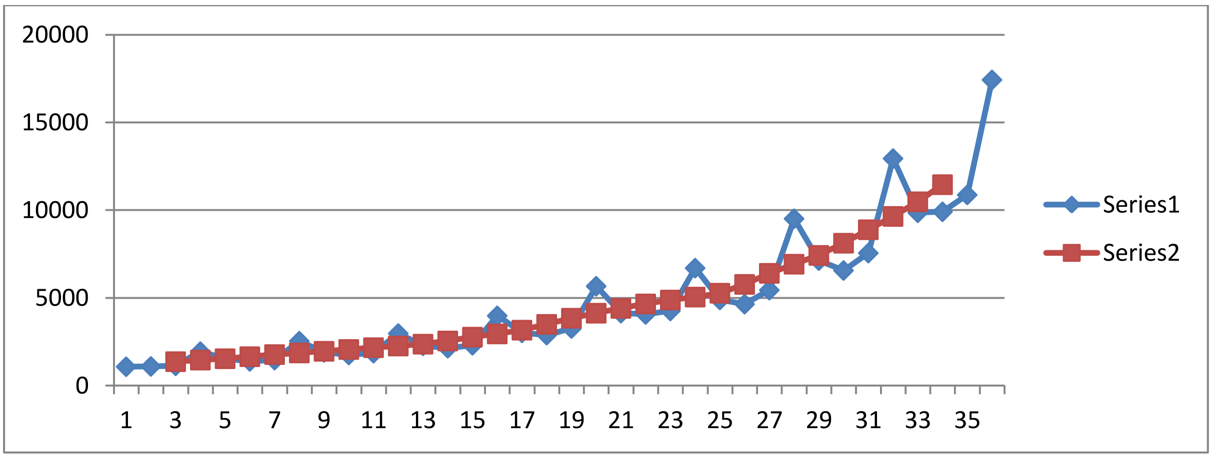


Figure 2: Graphical representation of observed values of quarterly sales and company sales trend of eBay

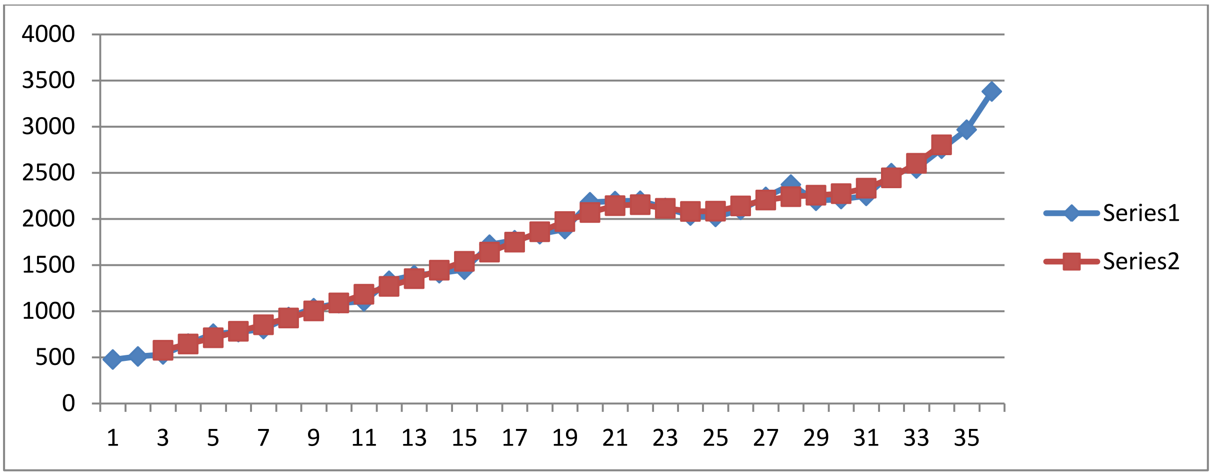
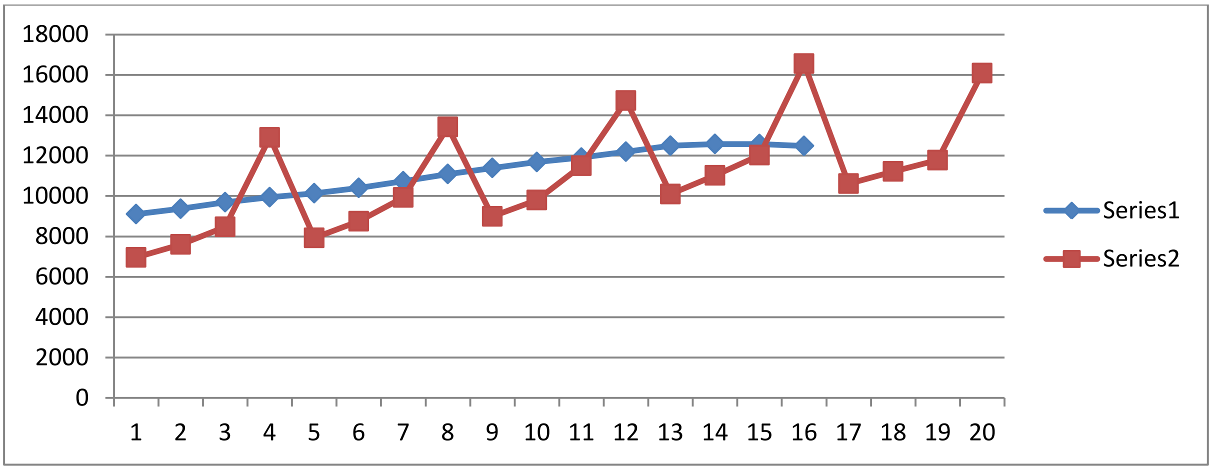


Figure 3: Graphical representation of observed values of quarterly sales and company sales trend of BestBuy

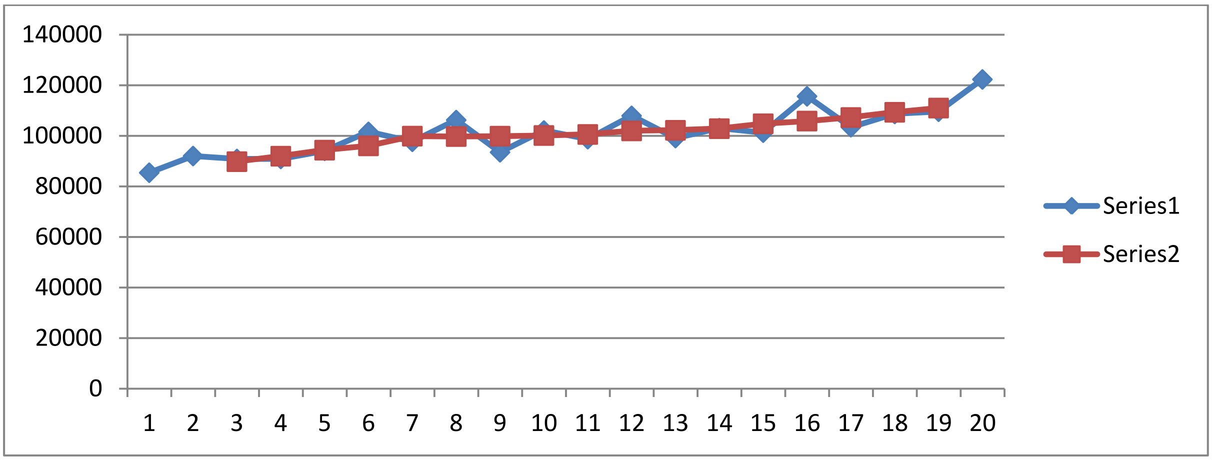


For example, Reputation Institute[22] measured how respondents interact with companies and determines how they change over time and how different experiences with the company determine their level of trust, admiration, respect and good feeling. For each company participating in the study, based on respondents' trust, admiration, esteem and approach the institute builds a

[22] http://www.reputationinstitute.com/thought-leadership/global-reptrak

variable called RepTrakPulse. All companies participating in the study were analyzed according to public opinion on performance, products / services, innovation, leadership, social responsibility, management and responsibility for employees.

Figure 4: Graphical representation of observed values of quarterly sales and company sales trend of WalMart



In 2012, according to the Reputation Institute's annual report on reputation among e-commerce markets, following data were recorded:

- Amazon was ranked on 5th place with score 82.70
- eBay was ranked 63 with score 68.48
- BestBuy was ranked 58 with score 68.84
- Walmart ranked 103 with score 63.

According to the same study, in 2011 we have the following scores:

- 78.1 for Amazon
- 67.16 for eBay
- 63.73 for BestBuy
- 67.43 for WalMart.

Regarding the classification of companies reported the parameters determining this rank score, in top five we have the following:

- For product Amazon ranks one with score 83.93;
- For quality management Amazon ranks one with score 78.70;
- For innovation Amazon ranked 2nd with score 83.50 being dethroned by Apple with score 84.12;
- For employees responsibility Amazon ranked 3rd with score 76.20 in the top of the rankings being Apple with score 77.15 and Google on 2nd place with score 76.85
- For performance Amazon ranked 4th with score 79.74
- For leadership Amazon ranked 3rd with score 78.81.

Another example is the study conducted by Harris Interactive[23]. Starting with 1999 on the basis of 15 000 answers the institute determined the reputation factor. The study is based on a series of 20 items grouped into six categories as follows:

- emotional feedback - considering whether the person has a good opinion about the company, the level of admiration and respect, trust;
- products and services – if the quality is high or not, are innovative of products, value for money, superior to other products or not;
- work environment - rewards for employees, pleasant working environment, competent employees;
- financial performance - it exceeds competitors, record profit, low risk investment, growth prospects;
- vision and leadership - market opportunities, excellent leadership, clear vision for the future;
- social responsibility - social support, environmental responsibility, responsibility to the community.

The study is divided into two stages: first step, nomination stage in which people call companies that they consider most "visible" in terms of reputation, as well as

[23] http://www.harrisinteractive.com/vault/2013%20RQ%20Summary%20Report%20FINAL.pdf

two less visible; the second step is the classification of 60 chosen companies. Then a number of respondents nominate two companies well known by them and they respond to questions about those two. Based on these answers the institute establish the reputation coefficient.

According to this study, in 2011 we had the following data on the companies surveyed:

- Amazon occupies 8th place with a score of 81.14,
- BestBuy is ranked 34 with a score of 72.08
- WalMart is ranked 41 with a score of 69.25.

A year later, in 2012, the values were:

- Amazon is ranked 4th with a score equal to 81.92,
- Best Buy is ranked 41 with a score equal to 65.92
- WalMart is ranked 42 with a score of 66.03.

Regarding the categories taken into account when the classification was done the institute determined that:

- for emotional appeal Amazon ranked one with score 82.90;
- for products and services Amazon ranked 5th with score 83.27;
- for vision and leadership Amazon ranked 3rd with score 83.85;
- for financial performance Amazon ranked 5th with score 82.98;

In 2013 the situation for those four companies studied was as follows:

- Amazon had score 82.62 and ranked first place
- WalMart had score 66.03 and ranked 40 place
- BestBuy had score 65.92 and ranked 41 place

For the 6 categories on which we determined the coefficient reputation in 2013 we had following things:

- for emotional appeal, Amazon is ranked 1st with score 85.00;
- for products and services Amazon ranked one with score 85.02

- for vision and leadership Amazon ranked 2nd with score 84.37
- for financial performance Amazon ranked 3rd with score 82.95
- for working conditions Amazon ranked 5th with a score of 80.24.

The studies mentioned above show that the four major online market places Amazon, eBay, BestBuy and WalMart are highly rated in the public eye. We can notice that their reputation increased in 2012 compared to 2011. Based on this idea we pursue that reputation affect sales volume.

As we saw in the rankings by various specialized institutes, financial performance is a factor that determines the company's reputation. What I propose is to analyze the financial performance of the four companies considered Amazon, eBay, BestBuy and WalMart. The companies chosen are part of the fastest growing market in terms of electronic transactions, the market whose customers has the highest opening for this kind of trade - United States of America market. Choosing a global market was not relevant because what draws customers from a corner of the world may seem to others something unattractive. We saw that those four companies are rated by analyzing firms as having a good reputation. What we propose to study is the influence of reputation on the financial performance of companies. To achieve this we collected quarterly data of sales in the period 2003 - 2011 and we plan to do a time series analysis. Based on the data collected will achieve a forecast for 2012 and then we compare these values with the real ones. Finally we will see the influence of reputation on the competitive environment. To achieve this we use time series analysis.

A time series typically includes four components: trend, cyclical, seasonal and irregular component or noise. Trend shows how are the values displayed over a period of several years. Cyclicality reveals fluctuations above and below the trend covering periods longer than one year. Seasonality is recorded within a year as fluctuations in the data in relation to the annual average of the size studied. Noise is an unsystematic component and raises compounds in the description of a time series. The other three components are called systematic and can be captured in a model. We work in cases in which the time series is written: $y_t = T_t * S_t * \varepsilon_t$.

From the time series analysis we can clearly see the influence of seasonality. Thus we determined the following:

- Amazon can report a 35% increase in the fourth quarter and a decrease of 16% in the first quarter, 4% in the second quarter and 15% in the third quarter.
- eBay sales increase in the first quarter and decrease in the second and the third; in the fourth quarter the sales are increasing again.
- BestBuy sales decrease in the first, second and third quarter with 17%, 11% and 3% comparing with the quarterly average for annual sales and increase with 31% in the fourth quarter.
- WalMart sales decreased in the first and in the third quarter with 4% and 2% comparing with the quarterly average for annual sales and increased with 1% and 5% in second and fourth.

It seems that the relationship between sales and time values is significant. This can be determined from the analysis of the coefficient of determination for which we have the following values:

- 93% for Amazon
- 89.8% for eBay
- 46.2% for BestBuy
- 47% for WalMart

Regarding to trend equations for the four companies, their parameters are calculated using SPSS software and have the following forms:

- For Amazon: $T_t = 1006{,}952 \cdot 1{,}072^t$
- For eBay: $T_t = 624{,}895 \cdot 1{,}049^t$
- For BestBuy: $T_t = 800{,}4937 \cdot 1{,}028^t$
- For WalMart: $T_t = 882{,}548 \cdot 1{,}013^t$

Based on equation trend determined before we make the following predictions sales for companies:

- For Amazon we predict 11078.8608 million in the first quarter, 13573.1875 million in the second quarter, 12883.2171 million in the third quarter and 21934.8135 million in the fourth quarter.
- For eBay we predict 3705.2839 million in the first quarter, 3809, 8754 million in the second quarter, 3915.8211 million in the third quarter and 4361.7801 million in the fourth quarter.
- For BestBuy we predict 1186.56 million in the first quarter, 1307.96 million in the second quarter, 1465.45 million in the third quarter and 2034.53 million in the fourth quarter.
- For WalMart we predict 1675.599 million in the first quarter, 1727.543 million in the second quarter, 1781.098 million in the third quarter and 1836.311 million in the fourth quarter.

In fact we have the following values of the sales volume for the four companies analyzed:

- Amazon have: 13185 million in the first quarter, 13 806 million in the second quarter, 12 843 million in the third quarter and 21 268 million in the last quarter
- eBay have: 3277 million in the first quarter, 3398 million in the second quarter, 3404 million in the third quarter and 3992 million in the last quarter
- BestBuy have: 1746 million in the first quarter, 1848 million in the second quarter, 1922 million in the third quarter and 2057 million in the last quarter
- for WalMart have: 1034.15 million in the first quarter, 1086.38 million in the second quarter, 1095.16 million in the third quarter and 1222.85 million in the last quarter

We want to see if there is any relationship between return on assets (ROA), return on equity (ROE), return on invested capital (ROIC) and reputation, as

Morley and Sammut[24] shown before. Thus we build several models and we will check if the current year reputation depends on the previous year and the value of one of the indicators mentioned earlier, namely, the link between the indicator of the current year and previous year's indicator value coefficient reputation of the year. Each company operates in accordance with a predetermined pattern. Thus, we analyze the value of each indicator in the current year if it depends or not on the amount of the previous year. To achieve this we use regression analysis to data from 2011 and 2012.

Return on assets is a measure of firm profitability relative to total assets, calculating the ratio of annual earnings and its total assets. This indicator gives an idea about the effectiveness of using asset management in determining earnings. Basically, ROA says that investments are generated by the company's assets. The ROA value is higher, the better because the company earns more money doing less investment. ROE, return on equity measures the profitability that reveals how much profit a company generates using shareholders money. This indicator is calculated as the ratio of net profit and equity and is used to compare the profitability of a company to that of others that acting in the same industry. Return on invested capital, ROIC is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of several investments. The indicator is calculated as the ratio of investment benefit (the difference between earnings and investment cost) and investment cost.[25]

First we want to determine whether the 2012 financial indicators values depend on the values of 2011 for the same financial indicators. Using SPSS we determined the following equation:

$$ROA_i = 0{,}542 + 0{,}585 * ROA_{i-1}$$

$$ROE_i = -\ 2{,}601 + 0{,}888 * ROE_{i-1}.$$

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[24] Morley, I. R. si Sammut, P., Corporate reputation and organisational performance: An Australian study, Managerial Auditing Journal, vol 21, no 9, 2006

[25] http://www.investopedia.com/terms/r/returnonassets.asp

$ROIC_i = 2,910 + 0,424*ROIC_{i-1}$.

The next step was to determine how values of financial indicators from 2012 are influenced by 2011 values of the same financial indicators and reputation coefficient of 2011. Using SPSS we found equations:

$ROA_i = - 25,428 + 0,333*Rep_{i-1} + 0,971*ROA_{i-1}$

$ROE_i = - 84,461 + 1,011*Rep_{i-1} + 1,589*ROE_{i-1}$

$ROIC_i = - 76,060 + 0,922*Rep_{i-1} + 1,655*ROIC_{i-1}$.

Finally, we determined if the reputation value in 2012 is influenced by the one in 2011 and the financial indicators considered in this study. Equations determined using SPSS are:

$Rep_i = -24,144 + 1,363*Rep_{i-1} + 0,134*ROA_i$.

$Rep_i = -23,956 + 1,362*Rep_{i-1} + 0,047*ROE_i$.

$Rep_i = -24,203 + 1,361*Rep_{i-1} + 0,111*ROIC_i$.

In every case we determined that there is a significant relationship between variables. As we can saw, the coefficient of determination values were significant large so that much of the dependent variable being influenced by that of the independent.

In this paper we determined that:

- Values of financial indicators in 2012 depend significantly on the values of financial indicators in 2011;
- According to coefficients of determination the relationship between the values of financial indicators in 2011 and 2012 are significant, but a significant part of those form 2012 of each indicator depends on values of another indicators from 2011 too;
- If we take into account the value of reputation in 2011, the meaning of the relationship mentioned in the preceding paragraph shall be kept;

- Reputation in 2012 depends on the reputation of 2011 and the values of financial indicators from 2011.

Therefore, based on the calculations above we can say that the company's reputation significantly affect its financial performance. Quality is important for consumers and that is why companies with a good reputation ensure high quality. So, in the case of a decision making, consumers take into accounts the company's overall image.

In **conclusion**, we can say that the reputation and competition are two important elements for the good of the economy in general and business in particular. Economics agents that are competing in the same market are becoming more attentive to the reputation, to the customers and if the image is formed in compliance with quality products and services to meet customer demand. Building reputation requires significant effort, time and money and you can destroy it in a few minutes. When the customer first interact with the market and choose between companies that are producing similar goods and services, he take into account several qualitative and quantitative factors and look at corporate reputation. For a new election reputation plays an important role and it determines virtually their loyalty.