ORGANIZATIONAL REPUTATION AND NEW VENTURES: FIRM AWARENESS OF CREDIT RATINGS AND ITS IMPACT ON FIRM PERFORMANCE (SUMMARY)

Dale T. Eesley

University of Toledo, deesley@unomaha.edu
SUMMARY

ORGANIZATIONAL REPUTATION AND NEW VENTURES:
FIRM AWARENESS OF CREDIT RATINGS AND ITS IMPACT ON FIRM PERFORMANCE

Dale T. Eesley, University of Toledo, USA

Principal Topic

Theories of new venture success and survival have examined the reputation and resources of new firms. Institutional theory has argued that firms mimic the behaviors of other successful firms in order to gain legitimacy (Glynn & Abzug, 2002; Deephouse, 1996; Dimaggio & Powel, 1983). Firms with better reputations have easier access to capital, suppliers, employees and customers and this can be a useful competitive advantage over other firms (Barney, 1991).

One important measure of a new venture’s reputation may be the organization’s credit rating. Not only does this provide information on financial resources of the organization, but it can also indicate characteristics of the firm’s business practices such as promptness, reliability, and responsibility. However, new firms often fail to give this much consideration because of other, more immediate demands on their attention, their perceived inability to affect it, or even ignorance regarding its importance. This study investigates variables that contribute to reputational awareness and its impact on firm performance.

Method

A phone questionnaire was developed to survey over 100 new businesses five years older or less. Firms were asked a number of questions regarding their credit score: Did they know their own score, if so, how often did they monitor it, did they use it to their advantage, and did they know the scores of their competitors, their suppliers, or customers. Variables such as firm size, age and founder experience were regressed on credit awareness to investigate what factors were related to reputational self-awareness, and together with credit awareness, were regressed on firm performance.

Results and Implications

This research highlights the importance of reputational awareness for new ventures. The results of this study can be used to advise founders of new businesses regarding the impact of their firm’s financial reputation. Not only is it a measure of the firm’s creditworthiness, but it also signals to customers, suppliers and competitors the competency and viability of the firm. Given the significant impact it may have on an organization’s reputation, and thus survival and success of the firm, it would be beneficial for new ventures to be aware of, monitor, and if necessary, attempt to manage their credit rating.

CONTACT: Dale T. Eesley; dale.eesley@utoledo.edu; (T): 419-530-2643; University of Toledo, Toledo, OH 43560.