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Working Paper 95 – 25

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HUMAN RESOURCE REPUTATION: LOOKING GOOD MAY FEEL GOOD BUT DOES IT ADD VALUE?

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Research Funded by CAHRS

McDonalds is cited for using its human resource policies and practices to become a leading global service organization (*Fortune*, October 17, 1994). Merck is named as the "Most Admired Corporation in America" for the seventh straight year (*Fortune*, February 8, 1993). Continental Air reports it will reimplement once frozen pay increases (*Wall Street Journal*, April 6, 1994). A Motorola press release boasts that its lifelong learning program helps sustain its competitive advantage (*Business Week*, March 28, 1994). Knight-Ridder is lauded in *Business Week* for implementing a policy requiring all employees to take a two-hour workshop on sexual harassment issues (*Business Week*, November 9, 1992). After a buyout, United Airlines becomes the nation's largest employee-owned company (*Wall Street Journal*, July 13, 1994). Proctor & Gamble, General Electric, and Mobil announce, in the midst of record earnings, workforce downsizing initiatives. Their press releases explain that these reductions are part of the changes required for continued competitiveness. GE's CEO, Jack Welch, is reported to assert that "...the new psychological contract, if there is such a thing, is that jobs at GE are the best in the world for people who are willing to compete. We create an environment committed to providing opportunities for personal growth and contribution."

Examples of human resource signals, such as these, abound. The critical questions are, do signals like these help create an organization asset, a good HR reputation, and does a good reputation add value? In other words, is a company's HR reputation a valuable resource and source of competitive advantage (Barney, 1991)? Is it difficult to copy by its competitors? Does it favorably influence security analysts, stockholders', applicants', employees', and customers' views of the company? Or, is information about human resource activities discounted or dismissed altogether as nothing more than mere reflections of a facade having little impact on organizational success?

To examine these questions, we analyzed the relationship between several HR reputation signals (such as being named, "a best company for women") and corporate performance (operationalized as a change in share price). To do this, we estimated the changes in companies' market values that were attributable to public announcements pertaining to their HR reputations.

The premise underlying this study, that reputation matters, is not new. Indeed, several books (Kanter, 1983; Kravetz, 1988) and periodicals (*Fortune*, February 7, 1994) claim that the value of a firm is associated with the goodwill it engenders.

Our basic proposition, that an organization's HR reputation has value and that this value affects financial markets, depends on a chain of events and sequential relationships. Consider the case of an organization 'officially designated' as a 'great' place to work. Conventional

wisdom holds that such a firm should be able to attract more, and better qualified, applicants (Carmichael, 1984; Rynes and Barber, 1990; *Wall Street Journal*, November 19, 1985; October 10, 1989; December 19, 1989). Hence, provided it uses valid selection procedures to hire the best and brightest employees from this applicant pool, the quality of its work force should improve. In turn, these noticeably better workers should be more productive, leading to higher profits and a sustained competitive advantage (Boudreau, 1988). Theoretically, this should eventually impact the firm's stock price. Regardless of whether this series of events happens, most organizations seem to value their reputations, even if only for their own sake. Certainly, many view them as accomplishments worthy of being publicized (see for example, any issue of *HR Executive News*).

Our study of the reputation--performance phenomenon is markedly different from other research studies that have preceded it. First, unlike most of the previous inquiries into this relationship which have primarily had an empirical focus, we also provide two theoretical perspectives to undergird and direct this study. The dominant perspective, signaling theory (Spence, 1974), suggests that reputation-related announcements serve as signals, or cues, to investors and other interested parties in the information marketplace. These signals help to alleviate observers' bounded rationality problems by reducing their information searches and lessening their cognitive loads (Simon, 1957). In addition, we extend the signaling concept to incorporate the efficient market hypothesis (Fama, 1970). Essentially, the efficient market hypothesis holds that any new corporate information of value will have an immediate, predictable effect on stock prices. Thus, according to these two theories, new, informative HR reputation signals should have an immediate, predictable effect on share prices.

Second, we study several new and different HR reputation signals, including designations such as “the best companies for working mothers,’’ “the best companies for women,” and “the best companies for blacks.” Hence, our analysis moves beyond the studies conducted by other researchers (McGuire, Schneeweis, and Branch, 1990; Fombrun and Shanley, 1990) that have relied on a single-item measure of overall corporate reputation (*Fortune's* reputation index). Third, the current study uses an event methodology to estimate the reputation-performance relationship more precisely than other studies, most of which have examined the effects of reputation on broader measures of annual performance (Kanter, 1983; Kravetz, 1988; *Fortune*, February, 7, 1994). The event study methodology is designed to capture the immediate impact that HR reputation signals have on the market value of the firm (Ball and Brown, 1968; Brown and Warner, 1980, 1985; Bowman, 1983; Fama, Fisher, Jensen, and Roll, 1969; Strong, 1992).

In the sections that follow, we briefly review the scholarly and business literatures related to the reputation-performance relationship. Next, we describe our study and findings. In the last section, we interpret these findings and draw implications for managers and researchers.

Reputation

Although everyone and everything seems to have one, reputation is an ambiguous concept. Cicero cautioned, "To disregard what the world thinks of us is not only arrogant, but utterly shameless." Napoleon noted that, "a great reputation is a great noise: the more there is made, the farther off it is heard" (Stevenson, 1988, p. 1700). The book of Proverbs 22:1 (*The Bible*, 1973) proclaims, "a good name is more desirable than riches." Formally, reputation is defined as:

> *an overall quality or character as seen or judged by people in general; recognition by other people of some characteristic; or place in public esteem or regard: good name. (Webster's New World Dictionary 1979).*

Extending this definition, business researchers define reputation as: the collective judgments of an organization's overall character by groups of similarly interested and informed people that are based primarily on the past actions of the firm (DiMaggio and Powell, 1983; Fombrun and Shanley, 1990).

Much of the scholarly literature on overall corporate reputation focuses on examining which factors influence it and the consequences that may result from it. For instance, accountants *explain and appraise* firms' reputations using the concept of goodwill (Riahi-Belkaoui and Pavlik, 1992). Marketers *create and manage* firms' reputations through institutional advertising campaigns and other activities (Borden, 1942, Kilbourne and Mowen, 1986). Publicists *shape and communicate* reputations (Dowling, 1986; 1988; Garbett, 1988; Gray, 1986; Smythe, Dorward, and Reback, 1993). Finally, economists *value* firms' reputations and think of them as controlling and optimizing mechanisms (Carmichael, 1984; Fama, 1980; Spence, 1974).

Empirical studies of corporate reputation are increasing and are found in several disciplines. Studies of corporate reputation are reported in economics (Camerer, 1985; Wilson, 1985), finance (McGuire, Schneeweis, and Branch, 1990; Rock, 1984; Sobol and Farrelly, 1988), and strategic management (Chakravarthy, 1986; Fombrun and Shanley, 1990; Weigelt and Camerer, 1988). Regardless of the field, the consensus is that corporate reputation is positively related to organizational success.

The difficulty inherent in measuring reputation is an issue that has been raised in all of these studies. For example, most of the empirical research relies on one, single-item measure

of reputation; the index of overall corporate reputation created and publicized in *Fortune's* annual surveys (1983-1995). Furthermore, most of the analyses thus far focus on factors that determine an organization's reputation, rather than on the consequences of good or unfavorable corporate reputations (Brown and Perry, 1994; Fombrun & Shanley, 1990; McGuire, Schneeweis, & Branch, 1990). Finally, there is also a continuing chicken-egg debate over whether an organization's performance determines its reputation or visa-versa.

In contrast to the academic literature, the conclusions advanced in business press are less equivocal. It asserts that companies must create, maintain, and, to no one's surprise, advertise good reputations (*Business Month*, December 1987; *Fortune*, February 7, 1994; *Working Mother*, August 1987). Among other things, good reputations are believed to lead to preferential access to talented employees, reduced turnover, as well as improved relations with customers, employees, lenders, and stockholders. Alternatively, unfavorable reputations are alleged to send these people fleeing to labor market, product market, and financial market competitors.

Evidently, organizations recognized by the press as being among the 'best,' do not hesitate to bring this information to the attention of their customers, owners, investors, employees, and job applicants. For instance, Merck once touted its stellar image whenever and wherever possible. Merck's 1987 annual report (Merck, 1987) reported that it was named America's "most admired" corporation for the second year in a row (*Fortune*, January 18, 1988) and was designated the "most innovative" company in the industry (*Forbes*, January 11, 1988). Other accolades mentioned included its being recognized for being one of the five "best managed" companies (*Business Month*, December 1987), for developing one of the "products of the year" (*Fortune*, December 7, 1987), and for having one of the "best sales forces" in the pharmaceutical industry (*Sales & Marketing Management*, June 1987). In addition, Merck was cited as one of the "best U.S. companies for working mothers" (*Working Mother*, August 1987) and was identified as one of the "best companies in public service" (*Business Week*, January 11, 1988).

Merck also publicized these plaudits in places other than its annual report. Job applicants from around the world were once given copies of *Fortune's* "most admired" articles and an excerpt from the *100 Best Companies to Work For* (Levering, Moskowitz, and Katz, 1987). For a time, there was even a billboard outside Merck's corporate headquarters recognizing the company's having been designated *Fortune's* "Most Admired Corporation" for five years running (1986-1991).

So while the research literature equivocates over whether reputation impacts performance or performance leads to reputation, the business press does not. To them, the relationship is clear; good reputations lead to improved performance.

Human Resource Reputation

By definition, corporate reputation is the collective judgment of a company's overall character with regard to its people, finances, and relations with stakeholders. In a like manner, HR reputation reflects the collective evaluations of the character of a company's human resource philosophies, policies, and practices. As already noted, job applicants and employees are the most obvious observers of a company's HR reputation. Others include customers and potential customers since it is asserted that they factor information about firms' human resource policies and practices into their purchasing decisions (Fearnley, 1993).

Moreover, there is also a widely held belief that employees who are treated well will strive to satisfy these customers (Lydenberg, Marlin, and Strub, 1986). Indeed, there is empirical evidence which suggests that reputation influences the attitudes and behaviors of employees (Acito and Ford, 1980). In their study, reputation-building advertisements that were viewed by employees were associated with improved attitudes and behaviors towards customers. In the same vein, a study by Belt and Paolillo (1982) showed that HR reputation and prospective employees' attitudes about potential employers are positively related. Here, applicants were found to be more likely to pursue employment with 'high' image companies than with 'low' image ones. Finally, a recent study of initial public (stock) offerings (IPO's) reported that HR reputation information even provides signals to investors. Welbourne and Andrews (1995) found, somewhat counterintuitively, that IPO's which included information about human resource policies in their prospectuses elicited lower initial share prices when first publicly offered, but performed better over the longer term.

Another indication of the increasing value placed on HR reputation, and information related to this phenomenon, is the increasing popularity of employment guides such as *The 100 Best Companies to Work For* (Levering, Moskowitz, and Katz, 1984; 1987), *A Great Place to Work* (Levering, 1988), *The Best Companies for Women* (Zietz and Dusky, 1988), and *The 100 Best Companies for Gay Men and Lesbians* (Mickens, 1994). These books purport to evaluate companies based on their human resource policies and practices in the areas of equal employment, compensation, benefits, employee relations, recruitment, selection, and career opportunities. The increasing number, variety, and sales of these "best company" books provides some anecdotal evidence indicating that people think that being recognized as a "best company" adds value to the organization.

This may also explain why competitors are increasingly monitoring each others' reputations. For example, IBM commissioned a comprehensive, multinational study to compare and contrast its HR reputation with those of other corporations (Towers Perrin, 1992). In the same vein, there are several 'best-in-class' accolades, such as the Baldridge Award and the Society of Human Resource Management Optimal Practices Award, that many organizations actively pursue to enhance their reputations.

Human Resource Reputation and Corporate Performance

While the reputation-performance relationship seems to be widely believed, much of the analysis on which it is based suffers methodologically. For example, *Fortune* invariably reports that companies with better reputations perform better. In one prototypical analysis, which appeared in the 1988 annual "Most Admired Companies" issue, *Fortune* found that the median ten-year average return to shareholders for its ten "most admired" firms was 22.5%. This was 37 times greater than the median return (.6%) for its ten "least admired" firms (*Fortune,* January 18, 1988). However, *Fortune's* inconsistent performance criteria (for example, its financial criteria often change from year to year -- return on equity (ROE) one year and shareholder return the next) and its use of cross-sectional comparisons leave its conclusions open to serious questions.

In another example, Kanter (1983), in her book *The Changemasters*, reported that the 47 firms she classified as having "progressive" human resource management practices outperformed a matched set of "non-progressive" companies. The ROE for her "progressive" firms (17.8%) was significantly greater than the "non-progressive" firms (15.4%). Since she uses a control, the "non-progressive" group, Kanter's analysis is somewhat more informative than *Fortune's* annual analysis (which is based on a six dimensional index of reputation--only one of which taps HR reputation--how well a company is perceived to hire and keep talented people). By incorporating three dimensions in her HR "progressiveness" reputation index (judgments pertaining to firms' abilities to *invent, incorporate,* and *promulgate* human resource management innovations), Kanter offers a more comprehensive measure of HR reputation. One shortcoming, however, is the fact that her sample was severely restricted. Only 65 (5%) of the 1,250 HR experts she surveyed provided reputation judgments.

To summarize, the business press has dwelt primarily on the cross-sectional relationship between reputation and performance. Essentially, it asserts that a positive relationship exists. In other words, a better HR reputation leads to improved performance right away and in subsequent periods. Using somewhat more sophisticated approaches, some research has

reported evidence, albeit tenuous, that supports a relationship between HR reputation and performance, though it is more equivocal about causation.

Signaling Theory - A Guiding Framework

Signaling theory offers a framework to better understand the potential role of HR reputation and, for two reasons, it serves well to direct our research into this issue. First, signaling theory focuses on the role that reputation plays in exchanges between organizations and individuals. Second, it lends itself to rigorous specification and analysis.

Signaling theory's basic premise is that complete information for an organization's prediction of an individual's future productivity is usually unobtainable (Spence, 1974). Consequently, individuals undertake certain observable and measurable actions to signal, albeit imperfectly, their potential value. For example, applicants' investments in their education, their accomplishments, and their experiences all serve as signals of their potential value to prospective organizations. Essentially, applicants send what they presume to be favorable signals (through résumés and interviews), to organizations who in turn receive, interpret, and act upon these signals. Presumably, the organization has a set of beliefs about the relationship between these signals and an applicant's future productivity. Based on these beliefs, the organization decides whether to hire the applicant.

The signaling cycle takes on a life of its own when other applicants recognize the relationship between various signals and organizations' decision criteria. Thereafter, subsequent applicants may invest in education themselves. When this occurs, the process incorporates learning on the part of both the organization and the individual; although there may be reactionary lags at times. Over time though, the degree to which these signals confirm an employer's presuppositions about productivity will influence the weight it affixes to similar signals in future periods.

This signaling model may also be extended and applied to organizational signaling. When this is the case, organizations are the ones who send the signals when they create, build upon, and are recognized for their HR reputations. Hence, reputation signals are sent to various stakeholders (including potential applicants, investors, and customers). In this scenario, the roles are reversed and it is the individuals who receive, interpret, and act upon the organizational signals.

The concept of organization signaling is not new. Meyer (1979) believed that a company's choice of organizational structure (i.e., flat, customer-centered) signaled internal and external stakeholders. Likewise, Kihlstrom and Riordan (1984) proposed that corporate advertising signals not only affect potential customers and investors, but that they also influence

the public at large and public policy makers. More closely related to our study, Judge and Bretz (1992) found that job applicants viewed organizations' human resource policies and practices (i.e., flexible schedules, family benefits, etc.) as HR signals and evaluated them in terms of how well these companies satisfied employees needs.

In this study, we extended signaling theory to include the efficient market hypothesis (Fama, 1970, Bromiley, Govekar & Markus, 1988). Simply stated, this implies that any HR reputation signal that brings new information to financial, labor, or product markets will influence the attributions and actions of participants in these markets and that this effect will be felt immediately. Thus, *favorable* reputation signals penetrating and being disseminated through these markets should (1) increase the size of an organization's applicant pool in labor markets; (2) increase an organization's sales volume in consumer markets immediately; and (3) increase an organization's share price in financial markets. As will be discussed in the next section, it is possible to quantify the increase in share price attributable to the HR reputation signal in terms of an unexpected bonus (the difference between the actual change in price and the predicted change in price for the relevant period).

To summarize, our study combines signaling theory and the efficient market hypothesis to examine the relationship between HR reputation signals and corporate performance. Its central hypothesis is:

New, favorable human resource management reputation signals will have an immediate, positive effect on corporate performance, measured in terms of unexpected shareholder returns.

Methods, Measures, Data

Methods--Event Study

To quantify the HR reputation signal--corporate performance relationship, we used an event study methodology. This technique provides an estimate of the *unexpected change* in share price on the announcement day (if the HR reputation signal appears in a daily periodical like the *Wall Street Journal*) or the announcement month (if it appears in a monthly periodical such as *Working Mother*), and for a window of trading days (or months) after the announcement. By design, an event study controls for all the relevant organizational factors (i.e., industry, sales, profits, assets, equity, performance, and overall corporate reputation) that may mediate or moderate the reputation--performance relationship.

We identified and examined six HR reputation signals that have appeared in a variety of widely disseminated outlets in the popular and business press. Each signal is presumed to be a

positive reflection of the HR reputation of a recognized company. A detailed description of the HR reputation signals we studied may be found in Table 1.

TABLE 1: Human Resource Reputation Signals, Descriptions, Release Dates, and Samples

"Best for Blacks"
In August of 1982, and again in February 1986, *Black Enterprise* magazine published a list of the 25 best firms for blacks in an article entitled, "In Good Company: 25 Best Places for Blacks to Work" (*Black Enterprise*, 1982; 1986). A total of 30 different firms were named at least once.
"Most Preferred"
In March of 1982, *Graduating Engineer* magazine published a list of the 25 *most preferred companies* among engineering students (*Graduating Engineer*, March 1982). Generated every March in even numbered years thereafter. In all, 80 different firms were cited between 1982 and 1988.
"100 Best to Work for"
On May 6, 1984, the *New York Times* published a partial list of those companies cited in the book, *The 100 Best Companies to Work for in America* (Levering and Moskowitz, 1984). There were 15 usable firms named.
"Best for Working Mothers"
In October of 1986, *Working Mother* magazine listed 30 firms that comprised its first annual survey of "The Best Companies for Working Mothers" (p. 25). A total of 74 firms were recognized between 1986 and 1989.
"Best for Women"
On April 25, 1988, *U.S.A. Today* published the complete list of those companies that had been cited in the book, *The Best Companies for Women* (Zietz & Dusky, 1988). A total of 24 of usable firms were listed.
"Best for Black Engineers"
In November of 1989, *National Society of Black Engineers* magazine published a list of the 100 firms deemed the *best for black engineers* (*National Society of Black Engineers*, November, 1989). A total of 67 usable firms were listed.

The event study method has increasingly been employed by researchers to search for the effects of various human resource management activities on share prices. For example, announcements pertaining to corporate restructurings and employee layoffs generated negative returns for shareholders (Abowd, Milkovich, and Hannon, 1990). Firms that initiated plant closings saw a .56% decrease in their share prices the day after these announcements. Other HR/IR related event studies have examined the effects of labor strikes (Becker and Olson, 1986; Neumann, 1980; and Tracy, 1987, 1988), collective bargaining agreements (Abowd,

1989), executive succession outcomes (Etebari, Horrigan, and Landwehr, 1987; Lubatkin, Chung, Rogers, and Owers, 1989; Mahajan and Lummer, 1993), and executive compensation plans (Brickley, Bhagat, and Lease, 1985; Tehranian and Waegelein, 1985).

In general, all event studies follow four basic steps (Bowman, 1983; Brown & Warner, 1980, 1985; Schwert, 1981; and Strong, 1992). These are: (1) identifying the event to be studied, (2) modeling the expected shareholder return, (3) estimating the unexpected shareholder return, and (4) analyzing of the unexpected returns.

Identifying Events

An "event" may be defined as phenomenon that affects one, all, or a subset of publicly traded firms. A change in an EEO regulation or the announcement of a Supreme Court decision regarding affirmative action are examples of HR events that would affect virtually all publicly traded firms, and do so simultaneously. Alternatively, some events, like a particular firm's decision to downsize, affects that firm only, and only at that time.

Regardless of the event type, determining the event date is crucial. Precise dating is essential because the event study method presumes that, on any given date, a firm's unexpected shareholder return has a predicted mean of zero. If the unexpected return is greater (or less) than zero, then it can be inferred that event caused this unexpected return.

In this study, we define human resource reputation events as the first public announcement that a company appeared on one of the various "best company" lists. As noted in Table 1, these lists have been publicly disseminated in daily newspapers, monthly periodicals, and guidebooks.

To recap, if a significant unexpected return for a company, or group of companies, is detected at or around the time that a HR reputation signal goes public, we can conclude that the market judged this material to be informative and reacted accordingly. If the return is positive, the signal must have been favorable. If the return is negative, the signal must have been unfavorable. Whether positive or negative, unexpected returns, significantly, different from zero may be attributed to the event alone. All of the other influences on shareholder return are controlled for since there is no serial correlation or cross-correlation in stock market returns.

Modeling the expected shareholder return

To predict expected shareholder returns for each organization on the event day (or month) and for the days (or months) surrounding it, shareholder returns for each company on the list (over a pre-specified period preceding the HR reputation announcement) were related to an index of total shareholder returns for the entire stock market over the same period (Strong, 1992). Here, a one year period preceding the announcement was used for HR reputation

signals appearing in daily periodicals and a 6 month period for announcements appearing in monthly periodicals. Also following convention, the baseline index used in this study was the New York Stock Exchange value-weighted portfolio, including dividends. The end result of this first stage is a model of the historical relationship between each firm's share price and the market baseline. For example, the equation derived for a given firm might predict that when the market goes up 1.00%, the firm's share price will be expected to increase 1.10% (this, of course, indicates the firm has been outperforming the market over the estimation period and that it is expected to react the same way on and around the event date, all else equal).

Estimating unexpected returns

These expected returns were then compared to the actual shareholder returns for the day (month) of and days (months) around the HR event. For the events that appeared in daily periodicals, the post-event windows were one (t_0), two (t_0, t_{+1}), three (t_0, t_{+1}, t_{+2}), and four days (t_0, t_{+1}, t_{+2}, t_{+3}). For those that were found in monthly periodicals, one (t_0), two (t_0, t_{+1}), and three (t_0, t_{+1}, t_{+2}) month windows were studied. The price per share was adjusted to reflect the effects of stock splits and stock dividends. The outcome from this second stage is the calculation of the unexpected return attributable to the event. Continuing with the previous example, were the market to go up 1.00% and the firm's share price to go up 3.70% on the day of the announcement, then the 2.7% difference between the actual increase (3.70%) and the predicted increase (1.10%) constitutes the unexpected return attributable to the HR reputation signal.

Grouping the unexpected returns

Then we calculated the average unexpected cumulative cverage returns (CARs) for firms experiencing the same HR reputation signal. The central hypothesis, that each firm that is recognized for its favorable HR reputation is expected to realize a positive unexpected return on or around at event also holds for any group of firms experiencing the same HR reputation signal. Thus, if company A experienced an unexpected return of 5.84% and company B experienced an unexpected return of 3.84% when they were named to a "best" list, the CAR attributable to the HR reputation signal for this two company group would be 4.84%.

Measures: Performance (Shareholder Returns), HR Reputation

Recall that the *dependent* performance variable of interest in event studies is the unexpected shareholder return. These values were computed for the event period itself and over several periods after the event. As such, we were able to test for any lagged effects attributable to the signals. In keeping with convention, tests for leading effects, possibly attributable to leaks, were also reviewed. Unexpected returns for various intervals before the HR signals were made public were computed, but none were significantly different than zero. The

independent variables were operationalized as first-time inclusion on one of the six HR reputation signal lists described in Table 1.

Data

Performance data (shareholder returns) were obtained from a financial database compiled and maintained by the Center for Uniform Security Pricing at the University of Chicago. Some firms named to various "best" lists are *not* publicly traded, and thus do not appear in the database. Boston's Beth Israel Hospital, which was cited in several lists (*Working Mother,* October, 1990; Zemke and Schaaf, 1989) is perhaps the most vivid example. Accordingly, some of the “best” samples we analyzed were somewhat smaller than the original lists from which they were drawn.

Results & Implications

As Table 2 shows, our findings offer only partial support for the existence of a relationship between favorable HR reputation signals and corporate performance. Indeed, five of the six HR reputation signals we examined proved to be entirely invariant with corporate performance. One exception was found. Firms named as the "Best for Working Mothers" (*Working Mother*, 1986; 1987; 1988; 1989) realized an unexpected return of 2.7%, on average, in the month that these announcements were first made public in this periodical (t=1.79, p<.05). Moreover, the three month cumulative abnormal return (CAR) for first-time “Best for Working Mother” nominees averaged 4.84% (t=1.85, p<.05).

TABLE 2: Abnormal Shareholder Returns for HR Reputation Signals

HR Reputation Signal	Announce Date	Return Type	Time Period n	(CARs) t_0	t_0 to t_1	t_0 to t_2	t_0 to t_3
1. Best for Blacks	Feb. 1982	monthly	30	.0291	.0320	.0207	---
	Feb. 1986			(.0230)	(.0325)	(.0398)	---
2. Most Preferred	Mar. 1982	monthly	80	-.0232	-.0085	-.0045	---
	Mar. 1984			(.0172)	(.0243)	(.0298)	---
	Mar. 1986						
	Mar. 1988						
3. 100 Best to Work for	May 6,1984	daily	15	.0023	.0095	.0091	.0063
				(.0060)	(.0085)	(.0104)	(.0120)
4. Best for Working Mothers	Aug. 1986	monthly	74	.0270*	.0233	.0484*	---
	Aug. 1987			(.0151)	(.0213)	(.0262)	---
	Oct. 1988						
	Oct. 1989						
5. Best for Women	Apr. 25, 1988	daily	24	.0008	.0036	.0071	.0245
				(.0104)	(.0147)	(.0180)	(.0208)
6. Best for Black Engineers	Nov. 1989	monthly	67	-.0010	.0277	---	---
				(.0217)	(.0301)	---	---

* p <.05, ** p < .01, *** p < .001

So, one out of six measures (18%) of HR reputation, in 2 of the 19 tests (11%) we conducted, emerged as having a significant relationship with performance. Under either criterion, this is more than twice the level of significance (5%) used by organizational researchers to distinguish findings due to chance alone. Nevertheless, these findings clearly reveal that this relationship is much more complex than the popular press would have us believe. Five of six indicators of favorable HR reputation studied here are not related to corporate performance; at least not the unexpected shareholder return measure we examined. Other than being named as, “Best for Working Mothers,” HR reputation signals were not related to changes in shareholder value.

Our study calls into question the widespread conjecture that HR reputation and corporate performance are directly related. These findings also raise questions about the value of all the efforts and resources devoted to being recognized as having the "best" HR philosophies, policies, or practices. It may feel good to "look good," but the belief that there is economic value associated with "looking good" is open to question.

Our findings do raise some new issues for additional research. For one, our results call into question the use of signaling theory and the efficient market hypothesis to study the reputation-performance relationship. Signaling theory suggests that in the absence of complete and accurate information, decision makers rely on observable factors, or signals, as substitutes; and the efficient market hypothesis holds that stock prices will reflect this information. Considering this, being designated as a “best company for .....” should have influenced stock prices. One explanation for the lack of any impact on stock prices is that maybe the HR reputation signals we used are not signals at all. Perhaps instead, a signal is not a signal when it comes from an ill-informed or self-interested source. This may be true for some of the HR reputation signals used in this study, since some of them emanate from consultants, magazine editors, and, even, groups of HR executives. Of course, many of these parties have vested interests in seeing organizations acquire these reputation enhancing designations. All to say, the quality and veracity of a signal may affect its importance and influence.

An even simpler explanation is that these ostensibly new signals are nothing more than old news. The increased attention afforded to human resource policies and practices has led to a proliferation of information regarding how organizations manage their people. Perhaps, the marketplace has simply become more efficient at evaluating this information. Maybe it has even become saturated with HR information and has devalued much of it.

Nevertheless, what is it about being named as "Best for Working Mothers" that differs from the other HR reputation indexes? There are other studies which report that family and

working parent oriented programs are related to improved employee attitudes and work behaviors (Kossek and Nichol, 1992). Our findings suggest that these programs impact investors, too.

In the end, it is possible that our results suggest that the importance of HR reputation varies according to the type of signal it conveys. According to our study, much of what passes for HR reputation ("best for blacks, most preferred, best to work for, best for women, and best for black engineers" designations) adds no economic value. However, some very specific and topical HR initiatives do have value--in this case, programs that support "working mothers." A less charitable interpretation, however, is that the one significant finding found in our study is simply noise. Possibly, our study did not lend itself to culling the wheat from the chaff. Clearly, expecting to find the effects of HR reputation signals on shareholder returns is a high standard. Tracing the value-adding effects of any HR reputation signal is empirically challenging enough; looking for those effects in changes in stock price may simply be unrealistic. Finding evidence for an impact on more intermediate outcomes such as applicant attraction; employee satisfaction, trust, & loyalty; employee turnover; customer satisfaction; and the like may be more realistic. So, we need to analyze the effects of HR reputation on these types of outcomes. Until proven otherwise, it seems that the almost universal belief that an organization's reputation is positively related to valued corporate outcomes will persist. Ultimately, however, the expenditures many employers make to boost and promote their HR reputation need to be subjected to the same tough questioning that other investments are.

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