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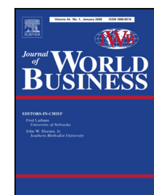

Asset or constraint: Corporate reputation and MNCs' involvement in the least developed countries☆

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ABSTRACT

This study investigates the relationship between corporate reputation and a firm's involvement in the least developed countries (LDCs), where the most impoverished base of the pyramid markets are located. We draw upon extant literature in corporate reputation and international business to develop competing hypotheses regarding the foreign investment of the highly reputable firms in the LDCs. Corporate reputation can be a double-edged sword: while it can be a valuable asset to be leveraged in the LDCs, it demands monitoring and protection which might be challenged by a firm's LDC presence, thereby constraining the involvement in LDCs. Our results show that corporate reputation has a negative effect on a firm's foreign direct investment involvement in LDCs, supporting the view that reputation could constrain firm action in uncertain environments. We contribute to a more nuanced understanding of the relationship between reputation and international action than that of existing literature.

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1. Introduction

Following the seminal work of Prahalad (2004, 2005), there has been a surge in interests among scholars, politicians, business media and corporate America in the so-called "Bottom" of the economic pyramid (BOP). Recently, the researchers have begun to use the term "Base" instead of "Bottom" to avoid any negative connotation. The BOP represents two thirds of the world's population – the approximately 4 billion people who earn less than $1500 per year – and collectively constitutes a market of about US$13 trillion. According to Prahalad (2005) and others (London & Hart, 2004; Polak, 2008), the poor at the BOP have been excluded from the participation in the global economy. They have not generally benefitted from the technological and economic trends of the "flat world" (Friedman, 2005). With a few notable exceptions (e.g., Unilever, Coca Cola, Vodafone), multinational corporations (MNCs) have traditionally concentrated on the developed countries or have targeted the wealthy elite in the emerging markets (EMs). The vast numbers of consumers at the BOP have been effectively ignored. Presumably this is because of their low individual purchasing power, markedly different consumer behavior and the difficulties in creating distribution systems in the countries lacking infrastructure (Prahalad, 2005). The most impoverished BOP markets are located in the least developed countries (LDCs), a group of low-income countries suffering from the most severe structural impediments to sustainable development (United Nations, 2010). Comprised of countries such as Afghanistan, Bangladesh and Haiti, the LDCs not only have persistent levels of low economic income, but also suffer handicaps in terms of low levels of human resource development and high levels of economic vulnerability such as dependence on agriculture industries. In 2008, the Gross National Income (GNI) per capita for the forty-nine countries of LDCs ranges from $90 to $3400, with only three countries out of 49 having GNI per capita higher than $1500, the income cutoff for the BOP market (United Nations, 2008). With a total population of 823 million, LDCs comprise a significant part of the BOP market. In this paper, we focus on MNC's involvement in these countries.

With the increasing saturation of markets in the developed countries and a relatively slow growth of the middle class in the emerging economies such as China and India, MNCs find themselves under more pressure to devise ways to unlock the enormous opportunities in the large numbers of potential consumers in the poorest of the countries. MNCs have been found to more increasingly partner with local NGOs and governments to develop BOP markets (Perez-Aleman & Sandilands, 2008). The pressure to become engaged in the LDCs is exacerbated by the growing desire of citizenry of the developed countries to address global poverty issues and the push for companies to behave in

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socially responsible ways (Bornstein, 2004; Waddock, 2008). The motto of late has been that business can ''do well by doing good'' (Karnani, 2007b). Indeed, there is some evidence that by engaging in poor developing countries, Western-based corporations can help alleviate poverty by increasing local employment (Winters, McCulloch, & McKay, 2004), enhancing access to education (Driffield & Taylor, 2000) and generally improve the quality of life by providing better quality products (Jain & Vachani, 2006).

While the premier international business journals such as the *Journal of International Business Studies, Strategic Management Journal* and *Journal of World Business* have began to publish articles on BOP, research that would examine what drives firms to low-income, poverty-stricken countries is still very sparse. We know generally very little about the presence of firms from developed countries in the BOP markets and the strategic motivations behind their decision to enter the world's least developed economies (LDCs) (Webb, Kistruck, Ireland & Ketchen, 2010). In this paper, we examine whether and how corporate reputation influences companies' decision to enter the LDCs. Corporate reputation has been viewed as one of the most important intangible resources in the strategic management literature (Hall, 1992; Love & Kraatz, 2009). A large body of research has investigated both the antecedents and consequences of corporate reputation. There has been relatively little research on corporate reputation in the context of international business. It is critical to understand whether and how corporate reputation influences a firm's internationalization behavior as international expansion has become an important strategy in today's hypercompetitive environment. Corporations, under the incessant pressure of the bottom line and quarterly earnings, are on a constant lookout for the next frontier for revenue generation. The least developed countries with their large consumer base and relatively low level of current development seem to offer enormous potential for corporations to explore. The question whether reputable firms will be more likely to establish their presence in the poorest regions of the world is interesting from the perspective of both theory and practice. From the theoretical standpoint, our paper is one of the first to examine the behaviors of multinational corporations in the least developed countries. Our study enables a future comparison of the differential behaviors of reputable firms in developed countries, emerging markets, and the least developed countries, allowing a more complete picture of corporate international behavior. From the viewpoint of practitioners, our investigation of the behaviors of the most reputable companies (and presumably leaders of their respective industries) will be of interest to the corporate executives in the developed countries and policy makers in the developing countries. The corporate executives in the developed countries can gain knowledge of the activities and rationale behind their most reputable peers and formulate their own strategies related to the LDCs accordingly. The policy makers in the developing countries, with the knowledge of the behaviors of the world's most reputable companies, can consider, devise and develop their economic and social policies in order to attract such foreign investors.

To address the question whether reputable firms are likely to be involved at the LDCs, we draw on two streams of research: (1) the literature on corporate reputation, which has been largely based on the resource-based view (RBV) of the firm, and (2) the international business (IB) literature that has focused on the factors that enable firms to internationalize their activities. Using a sample of 129 firms that have been listed in the 2009 *Fortune*'s *Most Admired* Corporations of America, we test two competing hypotheses that link corporate reputation to involvement in LDCs. In doing so, we seek to integrate the literature on reputation and on the least developed countries. Previous literature on reputation has emphasized that corporate reputation is an intangible asset that is difficult to create, imitate, or substitute. It is an important source of sustainable competitive advantage (Kotha, Rindova & Rothaermel, 2001). It is highly suitable to be deployed and leveraged in international settings. Reputation, like other ''stock'' variables, is also subject to changes through temporal ''flow'' sequences. Strategic actions, such as downsizing (Love & Kraatz, 2009) and internationalization might affect firms' reputation either positively or negatively because external audiences and observers might attribute certain motives to such strategic actions and adjust their opinions about the values and qualities of firms (Fombrun, 1996). In other words, firms' reputations (even good ones) may constrain their actions, as firms with a better reputation might need to be more protective of their positive image by engaging in ''safer'' behaviors. Internationalization to a LDC market presents an ideal setting to test the duality of reputation as an asset and as a constraint. LDCs offer an open, competitive arena for corporations to extend their domestic reputations internationally but, at the same time, present a political environment which might compromise the reputation that corporations have built previously. It is critical to understand which concerns (asset or constraint) might prevail in such settings.

Our study also contributes to the literature on BOP, particularly regarding the BOP market in the LDCs. Previous research on BOP is largely based on ad hoc case studies. While such studies offer valuable in-depth insights on key issues facing the BOP, our study is one of the first to quantitatively examine firms' involvement in the LDCs. Investigating the behaviors of 129 highly reputable firms in 49 countries, our study presents one of the first comprehensive reports of MNCs' activities in the LDCs.

2. Literature review

2.1. Corporate reputation and least developed countries (LDCs)

Corporate reputation has been defined as a reflection of the impressions of key stakeholders of a firm or a cumulative judgment related to a firm's overall appeal relative to other firms (Clark & Montgomery, 1998; Fombrun & Shanley, 1990). Over the past decade, research on corporate reputation has grown into a substantial body of work. It has investigated factors that influence or lead to formation of such reputation. These include, among others, firm performance, competitive actions, firm risk, corporate governance structures and product quality (e.g., Basdeo, Smith, Grimm, Rindova, & Derfus, 2006; Fombrun & Shanley, 1990; Love & Kraatz, 2009; Musteen, Datta, & Kemmerer, 2010). Researchers have also investigated consequences of corporate reputation in terms of firm performance, ability to attract employees, market value and joint venture activity (e.g., Black, Carnes & Richardson, 2000; Dollinger, Golden & Saxton, 1997; Rindova, Williamson, Petkova & Sever, 2005; Roberts & Dowling, 2002; Turban & Cable, 2003).

Research on corporate reputation in the international context is still quite limited. The existing literature indicates that reputation is an important asset for firms on a global scale (Kitchen & Laurence, 2003; Worchester, 2009). Indeed, in some countries it is more important for firm growth and survival than in others (Ravasi, 2002). Studies have generally found evidence for a positive influence of reputation on firms' international activities. For example, Kotha et al. (2001) observed that reputation is an important driving factor in the internationalization of Internet firms. Nielsen's (2007) study of Danish firms provided evidence that reputation positively affects performance of international strategic alliances. Likewise, using a sample of Australian and Thai firms, Styles, Patterson, and Ahmed (2008) showed that reputation plays an important role in export performance by influencing trust between importers and exporters. As Halter and Arruda (2009)

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