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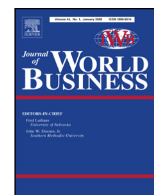

The effects of institutional development and national culture on cross-national differences in corporate reputation

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ABSTRACT

Corporate reputation is becoming more important to managers and scholars around the world. However, little is known about how much or why reputation differs across countries. We use institutional theory to fill this gap. We focus on institutional development, reflecting the expansion of formal institutions, and national culture, an important informal institution. We find that reputation is negatively related to institutional development and masculinity and positively related to power distance in a sample of 401 corporations from 25 countries. We recommend that institutional theory complement signaling theory in cross-national studies of corporate reputation.

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1. Introduction

Corporate reputation has become an important concern of managers and corporate stakeholders worldwide (Fombrun, 2007; Hall, 1992; Hofstede, Van Deusen, Mueller, & Charles, 2002; Sarstedt, Wilczynski, & Melewar, 2013). It represents what stakeholders think about a firm in relation to their expectations; furthermore, reputation includes a variety of stakeholders—not just shareholders and CEOs (Barnett & Pollock, 2012; Doh, Howton, Howton, & Siegel, 2010; Fombrun, 1996). Many benefits result from a favorable reputation (Sarstedt et al., 2013), such as improved financial performance, higher quality employee recruitment, and greater support from communities and governments (Deephouse, 2000; Fombrun, Gardberg, & Barnett, 2000; Turban & Cable, 2003).

While interest in reputation is growing worldwide among practitioners, scholarly attention to reputation as a worldwide phenomenon has been limited. Some recent empirical research reported that reputation varies across countries (Deephouse & Jaskiewicz, 2013; Soleimani, Schneper, & Newburry, 2014). However, a gap in our knowledge is that no theoretical reasons have been developed and tested for these cross-national differences (Brammer & Jackson, 2012; Newbury, 2012). This gap is not surprising because most research since the dawn of management research on reputation 25 years ago focused on single countries and applied signaling theory (Fombrun & Shanley, 1990; Philippe & Durand, 2011).

We develop a theoretical explanation to begin filling this gap using the comparative institutional approach because it has been commonly used in past studies of cross-national differences (e.g., Crossland & Hambrick, 2011; Hartmann & Uhlenbruck, 2015; Sun, Peng, Lee, & Tan, 2015). For instance, Gaur, Kumar, and Singh (2014) examined how institutional and firm resources affected the transition from exports to foreign direct investment by Indian firms. Institutions are stable rules, values, and meaning systems that constrain certain actions and serve as resources that enable other actions (Commons, 1970; North, 1990; Scott, 2014). Institutions influence the behavior of corporations and the expectations of stakeholders for corporate behavior (Jackson & Deeg, 2008; Redding, 2005). Thus, institutions should be related to corporate reputation. Following North (1990, 1994), we conceptualize institutions as consisting of formal and informal components. Formal components include rules and organized structures to guide human and organizational action. Following past research on international business, we focus on the overall institutional development of a country in terms of its educational, legal, economic and other sectors (Chan, Isobe, & Makino, 2008).

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Informal components include cultural norms and values that affect behavior. Following past research on international business, we focus on national culture (Crossland & Hambrick, 2011).

Given the gap in our knowledge about why corporate reputation differs among countries and the potential to develop a theoretical explanation that incorporates both formal and informal institutions from institutional theory, we ask the following research question: How do institutional development and national culture affect cross-national differences in corporate reputation? We develop and test five hypotheses in a sample of 401 corporations from 25 countries over 3 years. We find that corporate reputation is negatively related to institutional development and masculinity and positively related to power distance. Our overall contribution is creating theoretical and empirical connections between reputation and institutional theories in an international business context (Brammer & Jackson, 2012; Jackson & Deeg, 2008).

2. Theory

2.1. Corporate reputation

Corporate reputation represents the evaluation of a firm by its stakeholders, who compare the firm's behaviors to the behaviors of other firms and their instrumental and normative expectations for behavior, which, as noted above, are influenced by institutions (Barnett & Pollock, 2012; Deephouse & Carter, 2005; Fombrun, 1996; Jackson & Deeg, 2008; Redding, 2005). Past research identified multiple dimensions of reputation, such as financial and public (Deephouse & Carter, 2005) or being good and being known (Rindova, Williamson, Petkova, & Sever, 2005). In an extensive review, Lange, Lee, and Dai (2011) summarized past research on reputation into three dimensions: being known, being known for something, and generalized favorability. In this paper, we focus on the generalized favorability dimension, which represents the overall level of esteem that stakeholders have for a firm and incorporates stakeholders' opinions about the firm's characteristics, capabilities, and actions (Fombrun, 1996; Lange et al., 2011). Stakeholders are those people and organizations that affect and are affected by a corporation (Freeman, 1984).

Having a good corporate reputation has become an important concern of managers worldwide because of its beneficial consequences. In a study across 15 countries, "honor, face, reputation" was ranked between 4th and 6th of 15 business goals (Hofstede et al., 2002, p. 795). UK executives reported that corporate reputation was their firms' most important resource (Hall, 1992). Increasing interest in reputation led to the proliferation of rankings worldwide. Fombrun (1998) listed 17 rankings, 14 from the US; nine years later, Fombrun (2007) listed 183 rankings in 38 countries. Much past research examined the consequences of reputation for corporations (Sarstedt et al., 2013). One long-flowing stream examined how a good reputation leads to competitive advantage because corporations gain greater behavioral support from stakeholders (Barney, 1991; Deephouse, 2000; Newburry, 2010; Rindova et al., 2005). Other studies examined the importance of a good reputation for employee recruitment (Turban & Cable, 2003) and the socioemotional wealth of family firms (Deephouse & Jaskiewicz, 2013; Zellweger, Nason, Nordqvist, & Brush, 2013).

There is less research examining the determinants of reputation. Theoretically, most studies applied signaling theory, which examines how firm-level signals affect stakeholders' assessments of reputation. For example, Fombrun and Shanley (1990) found that accounting, institutional, market, and strategic signals influenced reputations of US firms. Empirically, "...most studies (of reputation used) *Fortune*'s list of America's Most Admired Corporations" (Fombrun & Shanley, 1990; Love & Kraatz, 2009; Philippe & Durand, 2011, p. 975), a 30-year database of large US corporations evaluated by one stakeholder group, US business elites (Fombrun, 1996). Given the importance of reputation worldwide, gaining further insight into its antecedents across countries is needed.

2.2. Institutional theory

Although past research demonstrated that signaling theory was useful for explaining differences in corporate reputation within countries, we argue that institutional theory is a very appropriate lens for explaining differences in corporate reputation across countries. By definition, reputation depends in part on corporate behaviors, and past research demonstrated how corporate behaviors across countries were influenced by national institutions (Brouthers, 2013; Crossland & Hambrick, 2011; Nell, Puck, & Heidenreich, 2015; Peng, Wang, & Jiang, 2008; Sun et al., 2015). Reputation also depends on the expectations of stakeholders for corporate behavior, and past research has shown how expectations of individuals across countries were influenced by national institutions (Brammer & Jackson, 2012; Cullen, Parboteeah, & Hoegl, 2004; Hofstede, 2001; Jackson & Deeg, 2008; Redding, 2005). Institutions represent the rules of the game that enable and constrain the actions of individuals and organizations, including governments and corporations (Commons, 1970; Eden, 2010; North, 1990). We separate institutions into formal and informal categories, following a large body of research (Hearn, 2015; Meyer, Mudambi, & Narula, 2011; North, 1990; Peng et al., 2008). Formal institutions are explicit rules, structures and outcomes in society, such as educational and financial systems. Informal institutions are largely uncodified systems of meaning present in customs, values, and unwritten codes of conduct; much research included national culture as an informal institution (Dikova, Sahib, & van Witteloostuijn, 2010; Hofstede et al., 2002; North, 1990; Peng et al., 2008; Redding, 2005). In the next two sub-sections, we develop hypotheses explaining how differences in reputation across countries could be explained by differences in institutional development and national culture.

2.3. Institutional development

Institutional development focuses on the extent to which a country has developed formal rules, systems, and structures that lower transaction costs and facilitate corporate activity (Brouthers, 2013). Important institutional dimensions include: distribution systems for moving inputs to producers and final goods to customers; financial systems that facilitate capital movements; labor market freedom; educational systems that train skilled personnel; and government institutions that promote transparency and reduce corruption (Berry, Guillén, & Zhou, 2010; Hoskisson, Johnson, Tihanyi, & White, 2005). Many of these dimensions (and corresponding measures) are important in other approaches to cross-national differences, such as national business systems (Berry et al., 2010; Ioannou & Serafeim, 2012; Whitley, 1992, 1999), national innovation systems (Khoury & Peng, 2011; Lehrer & Asakawa, 2002; Nelson, 1993), and varieties of capitalism (Hall & Soskice, 2001; Hartmann & Uhlenbruck, 2015). These dimensions are likely to influence both corporations and people's expectations for corporations, the comparison of which leads to corporate reputation.

Corporations in more institutionally developed countries may have more favorable reputations for at least three reasons. First, corporations have been major contributors to institutional development (Kwok & Tadesse, 2006; Porter, 1990). Thus, people in more institutionally developed countries may appreciate the

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