



# The complex link of city reputation and city performance. Results for fsQCA analysis



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## ABSTRACT

Studies suggest that good corporate reputation benefits firm outcomes. Our research tests whether these benefits also hold for city reputation. We propose that the effect of city reputation on city performance does not depend on this individual variable, but on specific configurations of city reputation with other city characteristics. We use a sample of 72 Spanish cities to analyze the effect of these configurations on city economic activities, employment, and migration rates. Results for fsQCA show that city reputation has complex links with performance, so that specific combinations of city reputation with other city characteristics are sufficient conditions for city performance. Moreover, the combinations differ according to the measure of performance considered. Results also show that the influence of city reputation on performance is marked by causal asymmetry. These results are of interest for local authorities, as they indicate when efforts to consolidate city reputation are relevant for city performance.

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## 1. Introduction

Research on the consequences of reputation has been a recurrent topic in the business field (e.g., Fombrun & Shanley, 1990; Weigelt & Camerer, 1988). However, reputation is not limited to corporations and other organizations; cities also have reputations (Harmaakorpi, Kari, & Parjanen, 2008). Like organizations, cities also compete (Begg, 1999; Lever, 1999; Porter, 1998), at regional, national, and even international scales (Anholt, 2007; van den Berg & Braun, 1999). In such a competitive environment, reputation may be a valuable resource for cities (Carmeli, 2002; Carmeli & Cohen, 2001; Carmeli & Tishler, 2004; Harmaakorpi et al., 2008; Wolman, Hill, & Furdell, 2004). However, empirical research regarding the effects of city reputation on city outcomes is scarce (e.g., Carmeli & Cohen, 2001; Carmeli & Tishler, 2004).

Previous research interested in what determines the growth and performance of cities has focused on other determinants such as public infrastructure (e.g., Cervero, 2001; Percoco, 2010), city size (e.g., Blumenthal, Wolman, & Hill, 2009; Cheshire & Carbonaro, 1996), human capital (e.g., Blumenthal et al., 2009; Glaeser, Scheinkman, & Shleifer, 1995; Greasley, John, & Wolman, 2011), and location (e.g., Portnov & Schwartz, 2009). Additionally, previous studies have adopted a linear and additive approach in empirical analyses.

Our research extends previous research by analyzing the importance of city reputation among these determinants. Additionally, drawing on the notion of fit as gestalt and complexity arguments (Ragin, 2000; Venkatraman, 1989), we propose that city reputation does not have a univocal and unifinal effect on city performance. Rather, it is specific configurations of other city characteristics that, together with city reputation, influence city performance in terms of economic activities, employment rates, and migration rates.

To empirically test these arguments, we use fuzzy set qualitative comparative analysis (Ragin, 2000, 2008). This approach is based on the idea that there are frequently multiple paths to an outcome (Fiss, 2007), so that causal relations are frequently better understood in terms of set-theoretic relations rather than correlations (Ragin, 1987; Fiss, 2007; Ragin, 2000, 2008; Ragin & Fiss, 2008). It also considers asymmetrical relations (Fiss, 2007; Ragin, 2008; Wu, Yeh, & Woodside, 2014). Asymmetrical relations imply that configurations leading to negative outcomes are not the mirror opposites of configurations leading to positive outcomes.

Such analyses are of interest for local government authorities and/or city planners, since they provide information that helps such people identify when a good city reputation may lead to high and/or low city outcomes, and discover the alternative ways in which city reputation can be combined with other city characteristics to increase them. This gives authorities and city planners potentially successful recipes for increasing city outcomes, reducing the risk of considering seemingly good configurations that might fail. In the theoretical realm, our research responds to previous calls to apply complexity theory arguments to move beyond linear and additive approaches, such as regression analyses, and toward alternative tools that take into account asymmetrical relations (Gigerenzer & Brighton, 2009; Ragin, 2006; Woodside, 2013).

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This study is organized as follows. First, drawing on the concept of corporate reputation, we define city reputation. We then review empirical evidence on the influence of corporate reputation on firm performance, as well as arguments on fit as gestalt and complexity arguments to develop our propositions on complex relations between city reputation and city performance. The fourth section describes the sample, the variables, and the methodology; the fifth shows the results. The study closes with a discussion of the main conclusions and implications of our study.

## 2. The concept of city reputation

Wartick (1992, p. 34) defines corporate reputation as “the aggregation of a single stakeholder’s perceptions of how well *firm* responses are meeting the demands and expectations of many *firm* stakeholders” (emphasis added). Fombrun (2002, p. 9) proposes that “corporate reputation is the collective representation of a company’s past actions and future prospects that describes how key resource providers interpret a company’s initiatives and assess its ability to deliver valued outcomes.” Finally, Waddock (2000, p. 323) proposes that reputation is the “organization’s perceived capacity to meet its stakeholders’ expectations.” These definitions show, first, that reputation is based on expectations about the ability to satisfy stakeholders and, second, that it is built by the aggregation of all stakeholders’ expectations. Drawing on these definitions of corporate reputation, we define city reputation as “the aggregation of a single stakeholder’s perceptions of the capacity of the city to meet demands and expectations of many *city* stakeholders.”

A city faces multiple stakeholders with diverse claims (Merrilees, Miller, & Herington, 2009, 2013; Waligo, Clarke, & Hawkins, 2013). In fact, Merrilees, Miller, and Herington (2012) show how different stakeholder groups use different filter or lens to interpret or perceive a city. For its inhabitants, the city is a place to live, work, and relax. It is also a supplier of a wide range of facilities such as education and health care. For firms, it is a place to locate, do business, and recruit employees. For tourists and other visitors, it offers a combination of culture, education, and entertainment (van den Berg & Braun, 1999). Singles may demand sociocultural services, whereas families may claim services that favor the upbringing and education of children. Investors will demand resources that favor their economic activities. These demands and expectations may also vary with the stakeholder’s specific attitudes or sociocultural level. Furthermore, each inhabitant may have more than one stake in the city, being, for instance, both a business owner and a parent.

Corporate reputation is determined by the value (quality) of the firm’s previous efforts to satisfy stakeholders (Podolny & Phillips, 1996, p. 455). However, since external constituencies do not directly perceive the firm’s full range of activities, these economic agents use various informational cues or signals—e.g., firm size, age, performance, or ownership structure—to generate their expectations about the firm’s ability to satisfy their interests (Brammer & Millington, 2005; Brammer & Pavelin, 2006; Delgado-García, Quevedo-Puente, & De La Fuente-Sabaté, 2010; Fombrun & Shanley, 1990).

A similar process may be expected in the case of city reputation. Local authorities try to satisfy the interests of various city stakeholders, and because of information asymmetries, they also try to signal to potential stakeholders the city’s capacity to satisfy these interests. Organizing certain events (e.g., the European Cities of Culture, the Olympic Games, or a World Championship), building or preserving emblematic monuments (e.g., the Guggenheim Museum in Bilbao, Gaudi’s buildings in Barcelona or Niemeyer’s in Brasilia, the Sydney Opera House), hosting important organizations (e.g., innovative companies, official organizations—Brussels and the European Union, or Strasbourg, and the European Parliament), and even an attractively built urban environment are signals that favor city reputation (Harmaakorpi et al., 2008). However, we may question whether a good city reputation does always lead to high city performance and/or when it does lead to high city performance—i.e., in which configurations of city characteristics a good city reputation is positively related to city performance.

## 3. The complex relation between city reputation and city performance

Corporate reputation literature suggests that firms with good reputation enjoy multiple advantages in their competition for resources. Corporate reputation affects a customer’s choice among competing products (Akerlof, 1970) and also attracts other stakeholders. For instance, research has stressed that good corporate reputation enables premium product prices (Dowling, 2006; Fombrun, 1996; Fombrun & Van Riel, 2004; Graham & Bansal, 2007; Klein & Leffler, 1981; Milgrom & Roberts, 1986a; Obloj & Obloj, 2006; Rindova, Williamson, & Petkova, 2005; Shapiro, 1983), attracts better job applicants (Fombrun & Van Riel, 2004; Stigler, 1962; Turban & Cable, 2003; Williamson, 1985), or grants favorable access to capital markets and attracts investors (Beatty & Ritter, 1986; Dowling, 2006; Milgrom & Roberts, 1986b). Literature suggests that these multiple benefits improve the firm’s profitability (Black, Carnes, & Richardson, 2000; Chung, Schneeweis, & Eneroth, 2003; Cordeiro & Sambharya, 1997; Deephouse, 1997; Dunbar & Schwalbach, 2000; Fernández & Luna, 2007; Roberts & Dowling, 2002; Srivastava, McInish, Wood, & Capraro, 1997; Vergin & Qoronfleh, 1998). However, some studies have not found empirical support for the positive relationship between corporate reputation and performance (Dunbar & Schwalbach, 2000; Brammer, Brooks, & Pavelin, 2004; Rose & Thomsen, 2004; Chung, Inglis, Morley, & Sammut, 2006).

Although competition among places is different from that in the business sector, competition among cities can be just as intense.<sup>2</sup> Local and potential residents (individuals or businesses) are the driving force behind local competition. In such a competitive environment, reputation may be a valuable resource for cities (Carmeli, 2002; Carmeli & Cohen, 2001; Carmeli & Tishler, 2004; Harmaakorpi et al., 2008; Wolman et al., 2004). However, empirical research regarding the effects of city reputation on city outcomes is scarce.

Carmeli (2002) and Carmeli and Tishler (2004) have tested the positive influences of city reputation on several measures of local authorities’ economic success. Using a sample of municipalities, local councils, and regional councils in Israel, they find that city reputation is a critical resource that favors above-average employment rates, municipal development, and fiscal strength. A primary argument of both studies is that the effects of reputation on city performance is additive, in the sense that reputation adds to other variables in affecting city performance. However, we propose that city reputation does not have a univocal effect on city performance. Rather, it is specific configurations of city reputation with other city characteristics, which influence city performance in terms of economic activities, unemployment rates, and migration rates. Furthermore, Carmeli and Tishler (2004) use the concept of fit to hypothesize that reputation interacts with other variables to enhance firm performance.

Arguments by Carmeli and Tishler (2004) draw on the fit as moderation conceptualization. We rather adopt a different perspective employing the conceptualization of fit as gestalt (Venkatraman & Camillus, 1984; Venkatraman, 1989). This conceptualization does not look at linear associations among several variables but tries to find frequently recurring configurations of causal factors or gestalts (Miller, 1981).

Fit-as-gestalts is at the core of configuration arguments (Ragin, 2000; Ordanini, Parasuraman, & Rubera, 2014). Configuration arguments suggest a break with linear arguments (Fiss, 2007) so that they do not imply a linear causation and/or linear relations. Rather, they assume complex causality and nonsymmetrical relations (Fiss, 2007; Wu et al., 2014)—i.e., configurations leading to negative outcomes are not the mirror opposites of configurations leading to positive outcomes. Furthermore, configuration arguments stress the concept of

### <sup>2</sup> Notes

Several examples of competition between local authorities can be mentioned. Carmeli (2002) provides an interesting example on the competition between Tel Aviv-Jaffa and Ramat Gan in their efforts to attract and preserve businesses in their respective jurisdictions.

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