Journal of World Business xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Looking for a service opening: Building reputation by leveraging international activities and host country context

Armando Borda, Assistant Professor[a,*],
William Newburry, Chair and Ryder Eminent Scholar of Global Business[b],
Hildy Teegen, Professor[c], Antonio Montero, Associate Professor of Management[d],
Juan J. Nájera-Sánchez, Associate Professor of Management[d],
Francisco Forcadell, Associate Professor of Management[d], Natali Lama[a],
Zulma Quispe, Director[e]

[a] *Universidad ESAN, ESAN Graduate School of Business, Alonso de Molina 1652, Monterrico Chico, Surco (Lima 33), Lima, Peru*
[b] *Florida International University, Department of Management and International Business, MANGO 447, 11200 S.W. 8th Street, Miami, FL, United States*
[c] *University of South Carolina, Sonoco International Business Department, Darla Moore School of Business, 1014 Greene Street, Columbia, SC 29208, United States*
[d] *Universidad Rey Juan Carlos, Paseo de los Artilleros, s/n, 28032, Madrid, Spain*
[e] *STAR Eco Works Society, Santiago A De Mayolo Nro. 460 Coo. Pablo Boner, La Molina (Lima 12), Lima, Peru*

A R T I C L E I N F O

Article history:
Received 4 May 2015
Received in revised form 21 August 2016
Accepted 28 August 2016
Available online xxx

Keywords:
Signaling
Internationalization
Context
Reputation
Service firms
Latin America

A B S T R A C T

We explore how a country's economic openness impacts firm-level signal interpretation when stakeholders assess firm reputation, arguing that host country norms influence the reference frames of assessors. In more open economies, regional MNCs' international activities are more valued as signals of firm quality–indicating effective cross-border deployment of ownership advantages. Latin America's unique development trajectory has resulted in groupings of both more open and more restrictive countries, creating a valuable setting to test our theory. Further, we suggest that the positive regional MNC impact on reputation is stronger for knowledge intensive business services given high uncertainty levels in such industries.

1. Introduction

Recent literature (e.g., Walsh, Mitchell, Jackson, & Beatty, 2009; Mariconda & Lurati, 2014) has identified many firm-level factors that impact reputation, with performance and corporate social responsibility being the most notable (Lange, Lee, & Dai, 2011). However, the social-constructionist view of reputation suggests that individuals attend to and evaluate a range of received signals about a firm when assessing a firm's reputation (Rindova & Martins, 2012). Thus, reputation assessment depends not only on the firm-level signals that reputation assessors receive but also on the assessors' own cognitive views and reference frames used to interpret this information (Highhouse, Thornbury, & Little, 2007; Rindova & Martins, 2012). Following limited recent work (e.g., Brammer & Jackson, 2012; Yue & Ingram, 2012), we suggest that industry- and country-level factors will affect these assessments and we theorize that a country's economic openness is an important reference frame impacting how stakeholders in a market interpret firm-level signals related to internationalization and foreignness, particularly when assessing service firm reputations. Latin America's unique development trajectory has resulted in a context with two dominant country groupings: those open to international activities and those more restrictive of such activities, creating a valuable setting to test our theory.

While Sanders and Boivie (2004) found signal effects vary across institutional, task and industry environments, these environments have been under-researched in signaling theory (Connelly, Certo, Ireland, & Reutzel, 2011). Some studies have suggested that institutional and cultural impacts on reputation

* Corresponding author.
E-mail addresses: aborda@esan.edu.pe (A. Borda), newburry@fiu.edu (W. Newburry), Teegen@moore.sc.edu (H. Teegen), antonio.montero@urjc.es (A. Montero), juanjose.najera@urjc.es (J.J. Nájera-Sánchez), franciscojavier.forcadell@urjc.es (F. Forcadell), natalilama@gmail.com (N. Lama), zulmaquispe@gmail.com (Z. Quispe).

http://dx.doi.org/10.1016/j.jwb.2016.08.006
1090-9516/

assessments need examination (e.g., Brammer & Jackson, 2012; Deephouse, Newbury, & Soleimani, 2016), as do industry effects (e.g., Winn et al., 2008; Yue & Ingram, 2012). We concur that our understanding of both signaling theory and reputation assessment will be improved by incorporating industry and country contexts into our theoretical and empirical development and respond by examining how host country openness influences reputation assessments among service firms. We do not focus on traditional conceptualizations of country-of-origin (COO) effects for service assessment. Instead we explore how the *host* country institutional environment influences interpretation of internationalization and foreignness as signals of the underlying quality and reputation of a focal firm, and in particular, how reputation assessment differs based on the degree to which a country has adopted policies and practices consistent with openness to foreign firms. We suggest that among these country differences, openness policies reflect and socially validate the value of global commercial interactions and thus will matter for reputation formation when foreign and internationally active firms are contrasted with purely domestic firms by local assessors. The following quotes from key leaders representing Mexico (more economically open) and Bolivia (less economically open) highlight the stark distinction in views of economic openness which we explore herein.

> The dilemma is not between left and right but between past and future, it is to decide if we will strengthen our democracy, that is the way of the future, or if we decide to return to dictatorial regimes of the past, if we are to going to promote increasingly broad and diverse markets, and increasingly global investments, or we are going go back to the past of centrally planned closed economies controlled by the government through expropriations. I believe in a brave Mexico in a competitive world, that does not lower his head, that does not close its borders, but competes with everything to win. *Felipe Calderón, former Mexican President* (2006–2012) (Calderón, 2007)
>
> Globalization and the neoliberal economic model have already been rejected in Latin America; it simply hasn't been a solution for our people. At the same time, Latin countries like Venezuela and Argentina are anti-imperialist and anti-globalization, and yet their economies are growing again. Globalization creates economic policies where the transnationals lord over us, and the result is misery and unemployment. I think the success of Bolivia's nationalization will be evident soon–and then the whole world will want to nationalize its energy resources. Bolivian President Evo Morales (1998–2016) (Padgett, 2006)

Service firms offer an opportunity to better understand corporate reputation given the difficulty for constituents to evaluate service quality ex-ante (Zhang, Zhong, & Makino, 2014), favoring a more central signaling role. Connelly et al. (2011) noted that signaling theory is most relevant in the context of information asymmetry and when unobservable firm quality is difficult to assess. Thus, we further refine our analysis by examining *knowledge intensive* business services to gauge distinctive firm quality signaling for such firms. Learning effects have been highlighted as salient for these firms and their reputations (Javalgi & Grossman, 2014), as customers can face problems evaluating service quality even after service provision (Von Nordenflycht, 2010). Hence, reputation assessors face particularly high uncertainty around knowledge intensive services, increasing their reliance on signals that communicate underlying quality when evaluating reputations.

We aim to contribute to signaling theory by analyzing how institutional and industry factors influence the interpretation of signals and their relative impact on firm reputation assessment. In particular, we explore how international activities signal underlying focal firm quality and how this signal's value varies depending on the context in which it is evaluated. In addition, in post-hoc analyses, we also demonstrate how the type of stakeholder that assesses the signal can impact these relationships. For our model, a more holistic reputation measure incorporating the perspectives of a variety of stakeholders provides the best predictive power.

Despite commonalities within Latin America, important distinctions exist among nations within the region. We build on the nascent literature examining country- and industry-level influences on reputation assessments (Thams et al., 2016) by evaluating the importance of country-level economic openness and service industry characteristics for reputations in Latin America. In so doing, we address whether and how within-region distinctions moderate the impact of foreignness and internationalization on service firm reputations. While we anticipate our theory would apply across emerging and developing countries, Latin America is particularly well-suited for our study given that the countries in the region largely share a common language and history (Cuervo-Cazurra & Dau, 2009), providing a better control for outside factors that could impact our results, while varying significantly in our focal construct of country openness.

Given the over-reliance on primarily single-country reputation measures in academic studies such as *Fortune's Most Admired Company* list[1] (see Dowling & Gardberg, 2012), we also contribute by presenting one of relatively few studies examining reputation across a group of countries within a particular region. We utilize reputation data from diverse and relevant stakeholder informant groups in each country, including industry analysts, business academic experts, and consumers, yielding a more comprehensive view of reputation than single respondent class studies can provide.

2. Background literature

Below we review the literatures related to corporate reputation, signaling theory, internationalization as signal, and finally market openness in Latin America that inform our research question of how country openness impacts the interpretation of firm-level internationalization signals in assessing service firm reputation.

2.1. Corporate reputation

Corporate reputation has been defined as "a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders" (Fombrun & Van Riel, 1997, p. 10). It is an important intangible asset that differentiates firms from their competitors (Fombrun, 1996; Rindova & Martins, 2012). Within Latin America, Newburry (2010) found that a positive reputation leads to firm benefits such as increased product sales, greater investments in firm stocks, and attraction of job applicants.

Reputation formation can be considered the result of a signaling process where not only the signaler, receiver and signal are relevant but also the context within which the signal is transmitted matters (i.e. Basdeo, Smith, Grimm, Rindova, & Derfus, 2006; Connelly et al., 2011). Many stakeholders participate in the construction of a firm's reputation. Ali, Lynch, Melewar, and Jin (2015) argued that different stakeholder groups may have distinctive prior experiences with a focal company along with

[1] The *Fortune's Most Admired Company* list measures firm reputations based on assessments of industry analysts. The current initial sampling frame includes the U. S. Fortune 1000 firms plus non-U.S. firms in the Fortune Global 500 list with revenues over $10 billion. For more information, see: http://fortune.com/worlds-most-admired-companies/, Dowling & Gardberg (2012) or Sarstedt, Wilczynski, and Melewar (2013)