INSTITUTIONAL AND NATIONAL CULTURE EFFECTS ON CORPORATE REPUTATION

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INTRODUCTION

How does corporate reputation differ among countries? How do the institutional and cultural characteristics of a country impact the assessment of corporate reputations? While both the impacts of institutional development and national culture have received significant attention in recent years, relatively little research has examined their joint impact, particularly with respect to their relationships with corporate reputation. This study aims to offer a better understanding of systematic impacts on the reputational evaluations of firms and to contribute to theories of institutional development and national culture. We test our hypotheses using a sample of 405 firms in 26 countries from the 2007 Reputation Institute study of corporate reputations. Our findings suggest that evaluations of corporate reputation are consistently higher in countries with lower levels of institutional development. There are varied effects for national culture variables.

THEORETICAL DEVELOPMENT

Corporate reputation refers to the overall knowledge and esteem about a firm held by the public (Fombrun, 1996). It is a type of social evaluation that differentiates among individual firms (Deephouse & Suchman, 2008). A favorable reputation confers financial benefits because stakeholders are more willing to exchange with the corporation, as demonstrated in longitudinal studies (Deephouse, 2000; Roberts & Dowling, 2002). We focus on the esteem component of corporate reputation, that is, the extent to which the public likes a firm. While corporate reputation assessment is obviously a function of firm characteristics (Fombrun & Shanley, 1990), evidence suggests that country-level factors create systematic biases in the evaluation of reputations which will cause difficulties when comparing reputations across cultures. Thus, we seek to discover what systematic biases can be attributed to country-level factors. We focus on institutional development and national culture as two general factors that impact the expectations of individuals within a society, and thus, may affect their assessments of corporate reputation.

Institutional Development

The institutional development of a country reflects the extent to which a nation has developed formal and informal rules that facilitate corporate activity (Commons, 1950; Meyer & Peng, 2005; Murtha & Lenway, 1994; North, 1990; Scott, 1995). Many theories imply that corporations in more institutionally developed countries have more favorable reputations. Corporations, along with other stakeholders, have been major contributors to institutional development, especially economic infrastructure (Chandler, 1977; Porter, 1990). The public in more institutionally developed countries may view their state of development positively and appreciate the contributions of corporations to this. Second, managers may also respond to institutional pressures proactively and strategically (Oliver, 1991; Suchman, 1995). As such, national institutions are subject to the interest-based needs of actors (DiMaggio, 1988), so managers have a role in shaping institutional environments (Chen, Newburry, & Park, 2009; Scott, 1995). A Marxist view indicates that the dominant economic sectors of the economy have the primary influence on societal values and ideology (Marx, 1977). Given the economic importance of corporations in institutionally developed countries, corporations should be able to influence public attitudes in a positive way. Taken together:

Hypothesis 1a: Institutional development is positively related to corporate reputation.

Other theories suggest that corporations in less institutionally developed countries have more favorable reputations. The public may be more favorably disposed towards corporations when the corporate contribution to economic development is compared to prior efforts by state-owned enterprises for which political purposes may have competed with economic ones. Consistent with this argument, Chen, Newburry, and Park (2009) suggested that public perceptions of MNCs in China were much more positive in early stages of international development, when institutions where much less developed, than in later stages. Often coincident with economic development is the growth of post-materialist cultural values. Inglehart (1971) proposed that materialist values for physical and economic survival diminish in advanced industrial countries and are replaced by post-materialist values of self-expression, freedom, and quality of life. Corporations may be less able to fulfill these values in the eyes of the public. At a mature stage of institutional development, firms come to be viewed as integral parts of the economy, leading to greater public expectations and criticism when expectations are not met (London & Hart, 2004). Thus:

Hypothesis 1b: Institutional development is negatively related to corporate reputation.

National Culture

Our theorizing uses the five dimensions of culture identified by Hofstede (1980; 2001). Although many criticized this framework (e.g., Shenkar, 2001), Hofstede's model is generally accepted as the most comprehensive and remains the dominant and most cited model of culture used in international business research (e.g., Kirkman, Lowe, & Gibson, 2006). Moreover, the model's validity, reliability, stability, and usefulness have been confirmed over time and in a wide variety of settings (e.g., Oyserman, Coon, & Kemmelmeier, 2002). Each cultural dimension may have a systematic influence on assessments of corporate reputation.

Masculine cultural values tend towards aggressiveness, assertiveness, and self-achievement; by contrast, *feminine societies* foster care, sympathy, and intuition (Hofstede, 2001). As such, masculine societies tend to have a stronger association with quick advancement, challenge, recognition, greater earnings, performance, and competition among colleagues (Hofstede, 2001; Newburry & Yakova, 2006). Modern corporations facilitate the attainment of these forms of material success. Although there is some discussion about life in corporations becoming gentler, we view the overall tenor of relationships among people in corporations to be more oriented towards assertiveness and toughness because of the necessity of corporations to succeed via measurable goals such as profitability and shareholder value maximization. People residing in masculine societies may be more comfortable with the goal-oriented nature of corporations, and thus, more likely to view corporations more favorably. Thus:

Hypothesis 2: Masculinity is positively related to corporate reputation.

Uncertainty Avoidance is "the extent to which the members of a culture feel threatened by uncertain or unknown situations" (Hofstede, 2001: 161). It indicates the extent to which a culture programs its members to feel comfortable in unstructured situations which are novel, unknown, surprising, and different from usual. Uncertainty-avoiding cultures try to reduce ambiguity and uncertainty with laws, rules, and security measures. A fundamental purpose of corporations is to reduce uncertainty (Thompson, 1967). Organizations structure relationships, economic transactions, and develop rules and procedures to reduce uncertainty (March & Simon, 1958; Williamson, 1985). This supports the suggestion that people operating in cultures with a high uncertainty avoidance would be more likely to have a greater affinity towards corporations, and thus, be more likely to view them more favorably. Hence:

Hypothesis 3: Uncertainty avoidance is positively related to corporate reputation.

Power Distance refers to "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Hofstede, 2001: 98). While the degree of hierarchy in organizations may differ and may even be shrinking (Harrison & Caron, 1996), corporations by their nature create hierarchies of power among their members to ensure an efficient means of organization. Moreover, corporations create a set of roles and positions that allow people in different corporations to compare and recognize different positions in the power hierarchy (Kahn, Wolfe, Quinn, Snock, & Rosenthal, 1964; Newburry, Belkin, & Ansari, 2008). Members of cultures having a higher power distance may be more comfortable with the hierarchical nature of corporations, and thus, view corporations more favorably. Hence:

Hypothesis 4: Power distance is positively related to corporate reputation.

Individualism and its opposite, *collectivism*, represent the degree to which individuals are integrated into groups. "Individualism stands for a society in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetimes continue to protect them in exchange for unquestioning loyalty" (Hofstede, 2001: 225).

In recent decades, corporations worldwide have been backing away from the promise of life-time employment, and this has subsequently reduced the loyalty of individuals towards corporations. In other words, modern corporations are less likely to be a cohesive in-group. Instead, corporations are increasingly recognized as a place where individuals can seek resources to advance their personal interests and careers, as is evident in the literature regarding perceptions of which companies provide greater employee career benefits (e.g., Newburry et al., 2008). Accordingly, in individualistic cultures, where individual achievement and creativity are valued (Hofstede, 2001), corporations are more likely to be viewed as providing such opportunities, and thus, be viewed more favorably. Thus:

Hypothesis 5a: Individualism is positively related to corporate reputation.

While the above argument is acknowledged, a counterargument may also exist.

Particularly with respect to our sample, which examines reputations of primarily large corporations, typical members of individualistic cultures may perceive these firms as constraining when compared to smaller more entrepreneurial firms or owning their own business. This perception may exist despite the opportunities for individual advancement within a large corporation. Large firms, by their nature, may derive benefits from more standardized procedures and processes due to difficulties inherent in coordinating extended operations and employees (March & Simon, 1958; Newburry & Yakova, 2006). However, while standardization may be beneficial from the corporate perspective, members of highly individualistic cultures may hold such processes and the corporations using them in lower regard. In contrast, collectivist cultures may view large corporations as opportunities for collective interaction, solidarity, and achievement. Although guarantees of life-long employment are less common, the practices at large corporations in collective societies still support longer-term employment. Employees still expect this benefit, and employers still feel an obligation to provide it. For example, while gradually changing in recent years, working in a large corporation in many Asian countries is often described in terms associated with being part of a family. Thus:

Hypothesis 5b: Individualism is negatively related to corporate reputation.

Long-Term Orientation is Hofstede's fifth cultural dimension, which aims to identify a society's time orientation (Hofstede & Bond, 1988). Long-Term Orientation focuses on virtues leading to future rewards, such as thrift and perseverance; Short-Term Orientation focuses on virtues associated with the past and the present, including current consumption, respect for tradition, fulfilling social obligations, and protecting one's 'face' (Hofstede, 2001). Corporations are inherently oriented to the future. Although corporations do instantiate traditions, create social relationships, and facilitate current consumption, they continue to exist with the goal of providing and increasing rewards, both economic and social, in the future. Thus, we propose:

Hypothesis 6: Long-term orientation is positively related to corporate reputation.

METHODS

We examine our hypotheses using a sample of large corporations from the 2007 Reputation Institute study of corporate reputations. We measure *corporate reputation* using a leading international measure of reputation, Global RepTrak™ Pulse (Reputation Institute, 2007). Global RepTrak™ Pulse uses four general items to measure corporate reputation: "good overall reputation;" "a company I have a good feeling about;" "a company that I trust;" and "a company that I admire and respect" (Reputation Institute, 2007). This measure was collected by the Reputation Institute in 26 countries from over 60,000 respondents to an online survey in January and February of 2007. Companies are rated only in their home countries. Respondents answered questions in their local language to eliminate biases associated with an English-only questionnaire (Harzing, 2005), which was translated and back translated by professionals fluent in both English and the language of questionnaire administration to ensure accuracy. The reputation score for a company was calculated using the average of 100 or more local respondents for each company who were at least "somewhat familiar" with the company, as determined by a screening question (Asher, 2004). Although interpretation of items can vary across cultures (Gardberg, 2006), the factor structure for the four items was evaluated in each country and found to be equivalent.

Following Chan et al. (2008), we measured institutional development by using indicators representing three types of institutions: economic, political, and social. Like them, we found these indicators to be highly correlated and created a composite variable called *institutional development*. We measured cultural values using the country scores for the five cultural dimensions reported in Hofstede (2001): *masculinity, uncertainty avoidance, power distance, individualism,* and *long-term orientation*. We found that power distance, collectivism, and long-term orientation were correlated in excess of 0.86, so we created a composite variable called *Confucian-hierarchical*. We controlled for industry, log of sales, and return on sales in 2005 using data from Global Compustat, converted to US$ at annual average exchange rates. We used data from 2005 because data from 2006 for most companies would not have been available to survey respondents.

We conducted hierarchical regression analysis with lagged independent variables to test our hypotheses.

RESULTS

Our sample sizes changed dramatically when we included long-term orientation, which had fewer countries than the original Hofstede study. We present our results by sample, starting with the dataset of 405 observations using the four original Hofstede cultural dimensions. Including the hypothesized variables increased the R-squared statistic from 0.23 to 0.41. The coefficient for institutional development is negatively related to corporate reputation and significant at the $p<.001$ level, supporting Hypothesis 1b, but not Hypothesis 1a. Neither masculinity nor power distance is significant, providing no support for Hypotheses 2 and 4. Uncertainty Avoidance is negatively significant at the $p<.01$ level, opposite to what was predicted in Hypothesis 3. The coefficient for individualism was negative and significant at $p<.05$, consistent with Hypothesis 5b.

We next report results for the dataset of 296 observations that include the long-term orientation cultural variable. Including the hypothesized variables increased the R-squared statistic from 0.26 to 0.47. The coefficient for institutional development is negatively related to corporate reputation and significant at the $p<.001$ level, again supporting Hypothesis 1b but not Hypothesis 1a. Masculinity is negative and marginally significant at the $p<.10$ level, opposite to what was predicted in Hypothesis 2. The sign for uncertainty avoidance is negative again, opposite to the Hypothesis 3 prediction, but it is not statistically significant. The coefficient for the composite Confucian-hierarchical variable was positive, as expected from Hypotheses 4, 5b, and 6, but its significance was only $p=.15$.

DISCUSSION AND CONCLUSION

Corporations play an important role in the economies of countries and the global economy as a whole. Social support for corporations' role in the global village is important for a business's legitimate license to operate and financial success (Post et al., 2002). Reputation is a key social evaluation indicating social support that also contributes competitive advantage (Barney, 1991; Deephouse, 2000; Deephouse & Suchman, 2008; Fombrun, 1996; Hall, 1992; Roberts & Dowling, 2002). Although globalization proceeds, great economic and cultural variety remains across countries (House, Hanges, Javidan, Dorfman, & Gupta, 2004).

In this context, we examined how elements of cultural and institutional variety affect corporate reputation. Our robust finding was that countries with lower levels of institutional development value the contributions of corporations more highly than countries with higher levels of institutional development. Future research could examine the underlying reasons for this. For instance, we suggested that people in countries with higher levels of institutional development may be acquiring post-materialist values (Inglehart & Abramson, 1999), potentially leading them to have lower opinions of corporations. Alternatively, people in countries with lower levels of institutional development are using state-owned enterprises as their reference point and viewing corporations more favorably.

Results for the national culture variables were mixed. Our mixed results depended on the dimensions chosen for testing because the inclusion of long-term orientation reduced our sample size by over 25%. This had the net effect of increasing the relative number of companies based in Anglo-American countries. Hofstede (2001: 60) himself raised similar concerns about comparative studies which are limited to wealthy countries. Future research could examine differences in culture or apply other dimensions of culture and values, such as GLOBE (House, Hanges, Javidan, Dorfman, & Gupta, 2004) and the World Values Survey (Hui, Au, & Fock, 2004; Inglehart, 2002).

One of our most remarkable findings is that most of our hypothesized variables are highly correlated, a concern raised by Chan et al. (2008) and Hofstede (2001). We used principal components for the three institutional development measures and for three of five cultural dimensions. In fact, the nine correlations between the three institutional development measures and the three cultural measures ranged in magnitude from 0.67 to 0.85. One way to address this would be to use configurational methods (Meyer, Tsui, & Hinings, 1993), but this would compromise our ability to test hypotheses about specific cultural dimensions.

Performance is commonly believed to have a positive effect on reputation (Fombrun & Shanley, 1990), but we found that return on sales had no significant relationship with reputation. This may stem from the fact that respondents to the Reputation Institute surveys were not business elites, but members of the general public. The latter may be less attuned to financial performance measured on an annual basis; instead, they may be more attuned with long-term value-creation by corporations that benefit a variety of stakeholders (Fombrun, 1996).

We see an opportunity to integrate our research in the future with research on cross-national differences in response styles (e.g., Harzing, 2006; Steenkamp & Baumgartner, 1998). While our research purpose was to examine institutional and cross-cultural differences in reputational evaluations of firms, this separate research stream seeks to examine how individual biases within various cultures influence responses to questionnaires in general. As such, these research streams have the potential to complement each other. While the Reputation Institute makes significant efforts to minimize cross-national response bias at all stages of the questionnaire process (e.g., by developing questionnaires in local languages, ensuring a representative sample of knowledgeable respondents, and testing for a consistent factor structure of items after data is collected), this nonetheless remains a potential limitation of our results.

To conclude, while interest in corporate reputation is spreading internationally, people in different countries may view their companies differently than others. We believe that institutional development and national culture may be important factors influencing these different views, and our paper helps to advance research on this important topic.

REFERENCES AND TABLES AVAILABLE FROM THE FIRST AUTHOR