Journal of World Business xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of World Business

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

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

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ARTICLE INFO

Article history:
Received 30 April 2015
Received in revised form 21 December 2015
Accepted 29 December 2015

Keywords:
Corporate reputation
Cross-national comparisons
Institutional development
National culture
National institutions

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; Newburry, 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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http://dx.doi.org/10.1016/j.jwb.2015.12.005
1090-9516/© 2016 Published by Elsevier Inc.

Please cite this article in press as: Deephouse, D. L., et al. The effects of institutional development and national culture on cross-national differences in corporate reputation. *Journal of World Business* (2016), http://dx.doi.org/10.1016/j.jwb.2015.12.005

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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contribution of corporations to their country's advancement—thus rating them more highly than people in less developed countries. Second, institutionally developed countries have many regulatory agencies, such as consumer protection, labor, and securities, that protect stakeholders, and these agencies may reassure stakeholders about corporate behavior. Third, national institutions are subject to the interest-based needs of actors, especially powerful ones (DiMaggio, 1988). Actors from dominant economic sectors have hegemonic influence on societal values and ideology, important building blocks of institutions (Levy & Egan, 2003; Marx, 1977; North, 1990). Given the relative power of corporations in institutionally developed countries, corporations could shape underlying institutions in ways that support corporations. Consistent with this line of argument, Laforet and Chen (2012) found that brand reputation had a positive impact on brand choice in Britain (a developed country) but not in China (a developing country).

While the above arguments are reasonable, we formally hypothesize that corporations in less institutionally developed countries have more favorable reputations based on two general mechanisms that are central to the formation of reputation. The first focuses on the comparisons to other organizations inherent in assessing reputation (Deephouse & Carter, 2005; Fombrun, 1996). Because our study examines differences in corporate reputations on average across countries, we apply these comparisons not among individual corporations but to large corporations as a societal sector relative to organizations in other sectors within the country. Corporations serve as agents of economic development (Chen, Newburry, & Park, 2009). As less economically developed countries advance, the emerging corporate sector's contribution to improvements in people's economic livelihoods is noticeable in these countries (Hoskisson et al., 2005). Therefore, individuals should have greater esteem for corporations. Also, large corporations and business groups in many emerging economies provide institutional infrastructure that fills institutional voids at the national level (Gaur et al., 2014; Khanna & Palepu, 2006); this infrastructure provides benefits to a variety of stakeholders. Relatedly, corporations may contribute to the recent development of institutions that bring further improvements to the public, such as political institutions that reduce corruption (Kwok & Tadesse, 2006).

Another point of comparison occurs in the many countries in transition from regimes in which Communist or other political parties exerted a great deal of control over the economy (Czaban, Hocevar, Jaklic, & Whitley, 2003; Peng & Heath, 1996). As part of this process, many state-run corporations have either been decoupled from political control or privatized and thus have become more subject to market forces (Chen et al., 2009); for instance, the term "state-run" was replaced with "state-owned" in the Chinese Constitution in the 1990s. While we recognize that the influence of the state in these transition countries has not disappeared (Czaban et al., 2003; Tsui-Auch & Lee, 2003), people may be favorably disposed toward corporations when comparing the corporate contribution to economic development to the prior contribution by state-run enterprises in which political purposes competed with economic purposes. That is, the reference point for expectations of corporations in emerging economies may be corrupt, inefficient, and polluting government enterprises subject to limited control by the market or public opinion.

The second general mechanism inherent in reputation is the individual's expectations for corporations, and these are affected by institutional development (Jackson & Deeg, 2008; Sarstedt et al., 2013). In more institutionally developed countries, expectations for corporate behavior may be higher relative to actual corporate behavior and to expectations for corporate behavior in less institutionally developed countries. These higher expectations may be based on post-materialist values of self-expression, freedom, and quality of life, which replaced materialist values for physical and economic survival (Inglehart, 1971). These expectations may also be based on the greater ease of organizing interest groups, including those which pose challenges to the corporate sector, and their greater prevalence in developed countries (Bischoff, 2003). Higher public expectations become embedded in formal institutions, such as regulations about consumer and environmental protection—the latter being a significant challenge to corporations in advanced industrial economies (Levy & Egan, 2003; Wittneben, Okereke, Banerjee, & Levy, 2012). This leads to frequent violations of stakeholder expectations leading to public criticism and reputational penalties (London & Hart, 2004; Mishina, Block, & Mannor, 2012).

To sum up these arguments, people in countries with low levels of institutional development view corporations better because corporations generated significant improvements in standards of living and filled institutional voids, frequently in comparison to state-run enterprises for which political purposes conflicted with economic purposes. In contrast, people in countries with high levels of institutional development view corporations less well because standards of living are already high and institutions are already well developed, leading people in these countries to have higher expectations for corporations that are harder for corporations to meet. Taken together, we propose:

Hypothesis 1. There is a negative relationship between the level of institutional development of a country and the reputations of the country's corporations.

2.4. National culture

National culture is an important informal institution (Dikova et al., 2010; Hofstede et al., 2002; North, 1990; Peng et al., 2008; Redding, 2005). A nation's culture influences the values and beliefs of a country's inhabitants, prescribes certain behaviors, and proscribes other behaviors (Ren & Gray, 2009). Little research has examined how national culture influences individuals' perceptions of corporations in toto (Redding, 2005), such as the generalized favorability dimension of corporate reputation (Fombrun, 1996; Lange et al., 2011). In his book, Hofstede (2001) reviewed the many studies in which national culture influenced corporate behavior. Cultural dimensions have also been found to affect individuals' perceptions of specific corporate behaviors, such as quality management and standardization (Hofstede, 2001; Kostova & Roth, 2002; Newburry & Yakova, 2006), and individuals' psychological contracts with corporations (Thomas et al., 2010). Recent research did find that general values affected the individuals' legitimacy judgments of oil sands corporations (Finch, Deephouse, & Varella, 2015; Tost, 2011), and legitimacy is closely related to reputation (Deephouse & Carter, 2005; Rindova, Pollock, & Hayward, 2006). Given that past research has found that national culture affects corporate behavior and individuals' perceptions of certain corporate behaviors, and that values influence individuals' attitudes toward corporations, we propose that dimensions of national culture should influence corporate reputation.

Many conceptualizations of national culture were proposed, such as those by Kluckhohn and Strodtbeck (1961), Triandis (1994), Trompenaars and Hampden-Turner (1998), and House, Hanges, Javidan, Dorfman, and Gupta (2004). While each has merits, we use the conceptualization developed by Hofstede (2001) because its validity, reliability, and usefulness have been confirmed over time and in a wide variety of settings (Hofstede, 2001; Kirkman, Lowe, & Gibson, 2006; Li & Parboteeah, 2015; Oyserman, Coon, & Kemmelmeier, 2002). It also has an advantage of measuring culture in a relatively large number of countries. To address concerns about using measures from Hofstede's original

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study (e.g., Hofstede, 1998; Mueller, Rosenbusch, & Bausch, 2013; Steenkamp, 2001), we use updated measures developed from a meta-analysis by Taras, Steel, and Kirkman (2012).

Hofstede initially identified four cultural dimensions: uncertainty avoidance, power distance, individualism, and masculinity. The values inherent in each dimension represent the middle classes in each particular country. We do not include the dimension Hofstede added later, long-term orientation, because the number of countries examined was 1/3 of the initial study and its inclusion would substantially reduce our sample size.

Uncertainty Avoidance is "the extent to which the members of a culture feel threatened by uncertain or unknown situations" (Hofstede, 2001, p. 161). It indicates how comfortable people feel in situations that are novel, surprising, and different. Uncertainty-avoiding cultures try to reduce uncertainty with laws, rules, procedures, etc. In the corporate sector, managing uncertainty remains an important corporate concern (Li & Parboteeah, 2015). A fundamental purpose of corporations is to reduce uncertainty, so they develop rules and procedures to structure employment relationships, social interactions, and economic transactions (March & Simon, 1958; Thompson, 1967); Scott (2014, p. 121) stated that corporations "create hierarchical frameworks to exert direct coercive and regulatory authority over their paid personnel." Therefore, people in cultures with high uncertainty avoidance would have a greater affinity toward corporations and be more likely to evaluate their corporations more favorably. In contrast, people in uncertainty-accepting cultures would be more receptive to indeterminateness and fewer rules and be less appreciative of the order and planning inherent in corporate structures. Thus:

Hypothesis 2. There is a positive relationship between the level of uncertainty avoidance in a country and the reputations of the country's corporations.

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, p. 98). While the degree of hierarchy in corporations differs and may be shrinking (Harrison & Caron, 1996), corporations inherently create hierarchies of power among their members to enhance efficiency. Moreover, corporations create roles and positions that allow people to compare and recognize different positions in power hierarchies (Pfeffer, 1981). Members of cultures having a higher power distance may be more comfortable with the hierarchical nature of corporations and therefore view corporations more favorably. Members of cultures having a lower power distance may feel sympathetic with egalitarian ideas and be more critical of corporate hierarchies.

One empirical study is suggestive of a positive relationship between power distance and corporate reputation. Hofstede et al. (2002) surveyed evening MBA students about business goals that they have for themselves and for what the MBA students thought a typical successful businessperson in their countries would have. One of these goals was honor, face, and reputation. Scores for the typical successful business person were aggregated to the country level, of which there were 14, and compared to Hofstede's (2001) measures of national culture. The only correlation for importance of having a good reputation that was significant was the correlation with power distance ($r = 0.51$)[1]. Our study differs markedly from that of Hofstede et al. (2002) because we use large-sample surveys of actual stakeholders for real corporations in 25 countries, not MBA students from 14 countries who are reporting what they think the goals of a typical successful business person in their countries would be.

We formally propose:

Hypothesis 3. There is a positive relationship between the level of power distance in a country and the reputations of the country's corporations.

Individualism and its counterpart, *collectivism*, represent the degree to which individuals are integrated into groups. In individualist societies, an individual focuses on self and immediate family, so that ties with other individuals are loose. In collectivist societies, "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, p. 225). This dimension is perhaps the most researched of Hofstede's dimensions—83 studies were included in the meta-analysis of this dimension by Oyserman et al. (2002). We also recognize that multiple approaches exist regarding conceptualizing and measuring individualism–collectivism, including those that conceptualize the construct as two dimensions and those that differentiate horizontal and vertical collectivism (Kim, Triandis, Kâgitçibasi, Choi, & Yoon, 1994; Oyserman et al., 2002; Singelis, Triandis, Bhawuk, & Gelfand, 1995). For consistency with our other dimensions, we adopt the single dimension approach used by Hofstede (2001).

We propose that people in more individualist cultures evaluate corporations less favorably. Typical members of individualist cultures may perceive corporations, especially large ones, as constraining their abilities to control their own actions, even though there may be offsetting opportunities for self-development within large corporations. Large firms, by their nature, derive benefits from standardized procedures to coordinate their many operations and employees (March & Simon, 1958; Newburry & Yakova, 2006). Members of highly individualist cultures may view such procedures and the corporations using them in lower regard. In contrast, members of collectivist cultures may view large corporations as opportunities for collective interaction, solidarity, and achievement. Although guarantees of life-long employment are less common in collectivist societies than before, employees still expect longer-term employment, and employers still feel an obligation to provide it; for example, working in a large corporation in some Asian countries is often described as being part of a family (Redding, 2005; Wong, Wong, Hui, & Law, 2001). People in collectivist societies value joint efforts, group rewards, and goals that benefit the whole society, leading corporations to incorporate practices that benefit groups within the corporation and society outside it. Consequently, they can gain more respect and trust of observers (Doney, Cannon, & Mullen, 1998). Thus:

Hypothesis 4. There is a negative relationship between the level of individualism in a country and the reputations of the country's corporations.

Masculine cultural values tend toward 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 advancement, challenge, recognition, greater earnings, performance, and competition among colleagues (Hofstede, 2001; Newburry & Yakova, 2006), and these are facilitated by corporations. Although there is discussion about life in corporations becoming more caring, we view the overall tenor of relationships among people in corporations to be more oriented toward assertiveness and achievement because of the necessity of corporations to succeed via measurable goals such as profitability

[1] We do not discuss the correlations of the importance of reputation with other dimensions of culture because Hofstede et al. (2002) only reported correlations that were significant at the 0.05 level. With a sample size of only 14, the magnitude of a significant correlation must exceed 0.49, and no other correlation for reputation exceeded this.

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and shareholder value maximization (Park, Li, & Tse, 2006). These goals are increasingly shared by both developed and developing countries as developing countries have recently emphasized the development of their stock markets and their companies have strived for greater participation in the global marketplace (Cuervo-Cazurra, 2008). Thus, people residing in more masculine societies would be more comfortable with the goal-oriented nature of corporations than people in more feminine societies and more likely to view corporations favorably. In contrast, people in more feminine societies should value the well-being of relationships and quality of life more highly and be less likely to agree with the corporate spirit of advancement and recognition. Thus:

Hypothesis 5. There is a positive relationship between the level of masculinity in a country and the reputations of the country's corporations.

3. Method

3.1. Initial sample of corporations and countries

We examine our hypotheses using a sample of large corporations from 2007, 2009 and 2011. Large corporations in this study are defined as being amongst the 600 largest companies in the world based on revenue in a firm's headquarters country. Using these three years allows us to test whether our results hold under differing economic conditions and the possible shift in stakeholders' opinions of corporations following the global financial crisis that started in 2008. The list of firms and their reputation scores were provided by the Reputation Institute (RI), an international organization founded in 1997 dedicated to improving research on reputation and the practice of reputation management. This dataset is advantageous because of the large number of countries included compared to other measures. Also, the respondent population represented the general population of each country in terms of age and gender. In contrast, most other measures reflect the view of only one stakeholder group in one country, most notably U.S. business elites in *Fortune*'s Most Admired Corporations (Fombrun, 2007; Philippe & Durand, 2011).

The initial sample consisted of 600 of the world's largest corporations in 25 countries for the year 2007 and in 32 countries for 2009 and 2011. Corporations were initially selected for consideration if they had global sales in excess of US$5 billion based on the expected visibility that firms of this size would have combined with the approximate threshold needed to reach the desired number of firms. Countries were initially included if four or more corporations of this size were headquartered there in order to distinguish between country and company effects and to justify the cost of administering a questionnaire in a country.

3.2. Dependent variable: Corporate reputation

We measure the reputation of individual corporations using a four-item scale developed by RI. The measure was tested for reliability and validity by Ponzi, Fombrun, and Gardberg (2011) using both qualitative and quantitative methods in six independent studies involving 17 countries on six continents. The items measure a person's general evaluation of a corporation's reputation, as opposed to measuring a specific dimension, like product quality, that may contribute to this general evaluation (Lange et al., 2011; Ponzi et al., 2011). Items measuring general perceptions tend to have greater face validity across cultures than more specific, culturally derived items (e.g., Scandura, Williams, & Hamilton, 2001). Descriptors of corporations in the four items are: "a company I have a good feeling about;" "a company with a good overall reputation;" "a company that I trust;" and "a company that I admire and respect" (Ponzi et al., 2011; Reputation Institute, 2007). Respondents evaluated each of the four items on a 7-point scale, where "1" indicates "I strongly disagree" and "7" indicates "I strongly agree". Respondents also had the option to indicate "Not Sure" (approximately 1.2% of total responses).

The data were collected by RI from over 60,000 respondents to online surveys in January and February of 2007, 2009, and 2011. Each firm was evaluated by at least 100 respondents, a point above which RI has found that additional respondents have a minimal impact on the final reputation score. The respondents to each survey do not form a panel but are a random sample of the population in each year, with the aforementioned stratification by age and gender.

Corporations were rated only in their home countries, which helps control for potentially confounding factors such as differing liabilities of foreignness, which are known to influence perceptions of firms (e.g., Newburry et al., 2006). Thus, this focus helps us better control for alternative explanations for our results. Respondents answered questions in their local language; the original English language questionnaire was translated and back translated by professionals fluent in both English and the language of questionnaire administration to ensure accuracy (Harzing, 2005). Data published by the RI are statistically adjusted to facilitate international, inter-industry comparisons. We obtained statistically unadjusted data from the RI so we could examine which countries view their corporations better and why.

The reputation score for each firm was calculated using the average of 100 or more respondents for each firm who were either "Somewhat familiar" or "Very familiar" with the firm as determined by a four-point screening question (Asher, 2004). We assume this level of familiarity implies that respondents had a sufficiently significant relationship with the firm for investigating "how institutions socialize the diverse sets of actors related to the firm" (Jackson & Deeg, 2008, p. 545). Although interpretation of items could vary across cultures (Gardberg, 2006), the factor structure for the four items was evaluated in each country and found to be equivalent. The final reputation scores were converted to a 100 point scale for ease of understanding. More details on the development and cross-cultural validation of this measure are contained in Ponzi et al. (2011).

3.3. Hypothesized independent variables

3.3.1. Institutional development

Many indicators of institutional development have been used; Chan et al. (2008) listed 21 that were highly correlated. Many measures combine indicators from different societal sectors. For instance, Hoskisson, Cannella, Tihanyi, and Faraci (2004) used the Human Development Index of the United Nations, which includes economic, education, and health indicators. Some researchers construct composite measures from the measures of others. For instance, Chan et al. (2008) used 12 indicators from four sources: the IMF, the *World Competitiveness Yearbook*, the International Country Risk Guide, and Freedom House.

The choice of an appropriate measure of institutional development should depend on the underlying decision being made (Brouthers, 2013). As noted earlier, most research applying institutional theory in international business focuses on specific managerial decisions like entry mode (Brouthers, 2002; Johanson & Vahlne, 1977). Brouthers (2013, p. 18) recently recommended that measures of the institutional environment should be more encompassing than those used in most research; broader measures would better "capture the entire scope of institutional differences, not just one or two narrow parts", consistent with institutional and comparative management theorists (Jackson & Deeg, 2008; North, 1990; Scott, 1995).

There is limited research on how institutions affect both the corporate behaviors that influence reputation and the stakeholders who evaluate these behaviors and make reputational judgments. Like Brouthers (2013), we believe that corporations and stakeholders are affected by a variety of institutions. Much research used competitiveness indices to measure a large number of institutions. Studies of firms from the 1990s and early 2000s used the *World Competitiveness Yearbook* from the IMD World Competitiveness Center (Chan et al., 2008; Delios & Beamish, 1999; Gaur & Lu, 2007). However, recent studies used the Global Competitiveness Index (GCI) prepared by the World Economic Forum (Chung & Beamish, 2012; Demirbag, Tatoglu, & Glaister, 2009; Fang, Wade, Delios, & Beamish, 2013; Shaner & Maznevski, 2011). We use the GCI. It is calculated as a weighted average of 12 pillars of economic competitiveness associated with different societal sectors: institutions; infrastructure; macroeconomic environment; health and primary education; higher education and training; goods market efficiency; labor market efficiency; financial market development; technological readiness; market size; business sophistication; and innovation. Although having institutions as one of 12 pillars is initially confusing, this pillar focuses on the country's legal and administrative framework. Overall, given our theoretical focus which takes a broad-based view of institutional development and the comprehensive nature of GCI, it is a very appropriate measure for testing our hypotheses. We report results from robustness tests in Section 4.1.

3.3.2. National culture

While Hofstede's (2001) cultural scores have been widely used, the fact that they are over four decades old and culture changes gradually has raised concerns (Hofstede, 1998). In response, Taras et al. (2012) developed measures of each dimension for each decade from a meta-analysis of studies using Hofstede's measures. We use their measures of *uncertainty avoidance, power distance*, *individualism*, and *masculinity* for the 2000s.

3.4. Control variables

Most research on the determinants of reputation focused on firm-level variables that serve as signals interpreted by stakeholders (Fombrun & Shanley, 1990; Philippe & Durand, 2011). We controlled for key firm-level financial variables using data from Global Compustat, converted to US$ at average annual exchange rates. *Sales* was used to measure firm size. We considered number of employees but did not use it because far fewer firms reported these data. We calculated *Return on Sales* to measure financial performance by dividing Net Income by Sales. We also calculated the *Age* of each firm by subtracting the founding year from 2007, 2009 or 2011, respectively. These three control variables were transformed by the natural logarithm in the regression analysis to correct their distributions.

Much research predicting reputation controlled for industry because stakeholders prefer certain types of businesses over others, such as engineering relative to utilities. Consistent with past work, we controlled for *Industry* with a series of 24 dummy variables (Brammer & Pavelin, 2006; Deephouse & Jaskiewicz, 2013). We omitted the dummy for telecommunications, which had the lowest average reputation, to avoid the dummy variable trap. To test the sensitivity of our results to the chosen referent industry, we also reran the model excluding the industry with the highest average reputation (computer) and the industry closest to the average reputation for the sample (energy). In both cases, our hypothesized results remained the same.

We used data from 2005, 2007, and 2009 for our independent and control variables because data from 2006, 2008 and 2010 for most firms would not have been available to respondents prior to the reputation surveys in early 2007, 2009, and 2011 (Doh et al., 2010).

3.5. Statistical analysis

We used hierarchical regression analysis to test our hypotheses. Causal inference is enhanced because the institutional development and financial variables were lagged and because the national culture variables are assumed to be stable over the decade (Taras et al., 2012). There was evidence of serial correlation and heteroskedasticity in our initial ordinary least squares (OLS) estimates. Therefore, we used the panel data regression with robust standard errors. The random effects estimator was used because there were time-invariant independent variables (Wooldridge, 2009). For additional verification, we also used robust regression, and the results were consistent.

3.6. Final sample

Our final sample was constructed as follows. From the 600 corporations with reputation scores in each year, we deleted approximately one-third that lacked the financial data to create control variables. We omitted corporations that only appeared in one of the three years to ensure that each corporation had two years of data required for panel data analysis. The great financial crisis led to a large number of entries and exits to the list in 2011, so this specification has a bigger impact in this year. Our final sample consisted of 1057 firm-year observations, consisting of 380, 387, and 290 corporations in 2007, 2009, and 2011, respectively. Even with the reduction in the number of corporations in 2011, total sales from the final sample comprised a substantial percentage of global GDP: US$12.3 trillion (21.5%) in 2007; US$15.2 trillion (25.4%) in 2009; and US$12.5 trillion (17.2%) in 2011. Because the sampling frame is based on company size, the sample is biased toward firms from large, developed countries. However, 26% of the final sample is from emerging markets: Brazil, Chile, China, India, Mexico, Poland, Russia, South Africa, and South Korea.

4. Results

Table 1 presents means, standard deviations, and correlations. We found high correlations among our country-level variables around 0.50 and so investigated multicollinearity. A common approach is to examine variance inflation factors (VIFs). The average VIF in our full model was 1.59, and the highest individual VIF was 2.85, well below the critical value of 10.0 (Neter, Wasserman, & Kutner, 1990). Another approach focuses on the sensitivity of estimates when excluding potentially collinear variables (Wooldridge, 2009). Thus, we ran additional models and compared standard errors and the R-squared statistics. It is important to recall that estimates for each variable are calculated excluding the variation common to other variables (Kennedy, 2008). We found significant coefficients and improvements in R-squared statistics when including correlated variables, also indicating that multicollinearity was not a major problem.

Table 2 presents the results of the regressions. Model 1 is the baseline model of control variables. The adjusted R-squared in Model 1 was 0.25.

Model 2 adds GCI to the baseline model, and model 4 includes all variables. The coefficients for GCI are negative and highly significant in both models ($p < 0.001$). These results support Hypothesis 1 for institutional development.

We next consider the tests for national culture specified in Hypotheses 2–5. Model 3 adds the four national culture variables to the baseline model, and model 4 also includes GCI. Uncertainty avoidance had a positive effect that was significant ($p < .01$) in

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Table 1
Descriptive statistics and correlations.

	Variable	Mean	Std. Dev.	Min	Max	1	2	3	4	5	6	7	8
1	Reputation	66.12	10.54	28.22	91.34								
2	Sales[a] (USD millions)	10.00	1.14	4.06	12.91	−0.21*							
3	Return on Sales[a]	1.90	0.97	−3.21	5.15	0.04	−0.15*						
4	Age[a]	3.82	1.05	0.00	5.87	0.13*	0.04	−0.08*					
5	Global comp. index	5.13	0.54	4.03	5.81	−0.32*	0.45*	−0.16*	0.11*				
6	Uncertainty avoidance	0.03	0.55	−1.49	1.12	0.16*	−0.05	0.05	0.00	−0.48*			
7	Power distance	−0.51	0.40	−1.38	0.61	0.36*	−0.20*	0.11*	−0.09*	−0.42*	0.13*		
8	Individualism	0.36	0.43	−1.03	1.79	−0.33*	0.20*	−0.00	0.02	0.54*	−0.41*	−0.49*	
9	Masculinity	−0.09	0.50	−1.46	0.58	−0.21*	0.37*	−0.13*	−0.01	0.13*	0.16*	0.17*	−0.08*

$N = 1057$.
[a] Natural logarithm transformation.
* $p < 0.05$.

Model 3, but it was not significant in the full model. Thus, we do not find support for Hypothesis 2. Power distance had a positive effect that was significant in models 3 and 4 ($p < 0.001$), supporting Hypothesis 3. Individualism had a negative effect, but it was not significant in either model. Thus, we do not find support for Hypothesis 4. Masculinity had a negative effect that was significant in models 3 and 4 ($p < 0.001$), contrary to Hypothesis 5.

The national level variables add considerable explanatory power to the baseline model of firm-level control variables and dummy variables for industry and year. The inclusion of GCI increased the adjusted *R*-squared from 0.25 in Model 1 to 0.34 in Model 2, a 36% increase in variance explained. The inclusion of the four national culture variables increased the adjusted *R*-squared from 0.25 in Model 1 to 0.43 in Model 3, a 72% increase in variance explained. Including all five national level variables increased the adjusted *R*-squared from 0.25 in Model 1 to 0.45 in Model 3, an 80% increase in variance explained.

We present results for our control variables in the full model containing all variables. Sales as a measure of firm size had no significant effect on corporate reputation. Neither did return on sales. Age had a positive effect ($p < .01$). Eighteen of 23 industries had significantly higher reputations relative to the omitted telecommunications industry (available on request).

4.1. Robustness tests

We recognize that other measures of institutional development exist, so we used other measures to see if this choice affected our results. The first was GDP per capita, which was used to measure the development of economic institutions (Chan et al., 2008). It is also highly correlated with two other measures of institutional development, economic freedom and transparency (Meyer & Sinani, 2009). The second was the Human Development Index (HDI) (Hoskisson et al., 2004). The correlations among GCI, HDI and GDP per capita are all above 0.76. Given the high correlations, it was not surprising that regression results were similar. Therefore, our results appear robust to alternate measures of institutional development.

Eight companies had reputation scores from two countries because they had dual headquarters (e.g., News Corporation in Australia and the U.S.). Results reported above include these as the same firm in two countries, but results were little changed when we specified these as different firms in the two countries.

Many of the corporations were multinationals, and the degree of multinationality could influence our results. We reran model 4 twice using a sub-sample of 267 firms (67% of the total) from 2009 for which we could obtain indicators of multinationality. Our indicators were the number of total foreign subsidiaries and the number of countries where a firm operated (Goerzen & Beamish, 2003; Kirca, Roth, Hult, & Cavusgil, 2012). The sample is limited because not all firms provided information on multinationality. We selected 2009 because it was the middle of the three years of our dataset (2007, 2009, and 2011). We found no effect on the significance level of our hypothesized variables, so we did not collect other years of data because of the significant work required and the loss of sample size that resulted from including this

Table 2
Random effects regression estimates of corporate reputation.

Variables	Model 1		Model 2		Model 3		Model 4	
	β	S.E. (β)	β	S.E. (β)	β	S.E. (β)	β	S.E. (β)
Intercept	75.47***	(4.27)	91.23***	(4.66)	64.00***	(3.94)	72.80***	(4.75)
Sales[a]	−1.73***	(0.36)	−0.66	(0.37)	−0.26	(0.35)	0.20	(0.36)
Return on sales[a]	0.35	(0.24)	0.42	(0.25)	0.37	(0.24)	0.38	(0.24)
Age[a]	0.53	(0.43)	0.77*	(0.38)	0.80*	(0.36)	0.90**	(0.35)
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
Global competitive index			−5.54***	(0.81)			−2.91***	(0.86)
Uncertainty avoidance					2.42**	(0.81)	1.55	(0.82)
Power distance					9.45***	(1.14)	8.73***	(1.12)
Individualism					−2.16	(1.13)	−1.45	(1.13)
Masculinity					−6.34***	(0.79)	−6.06***	(0.78)
Observations (firm-year)	1057		1057		1057		1057	
Number of firms	401		401		401		401	
Adjusted *R*-squared	0.25		0.34		0.43		0.45	
Wald Chi^2	215.85***		317.74***		501.30***		526.12***	

Robust standard errors are in parentheses.
[a] Natural logarithm transformation.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.

variable. We did find that degree of multinationality had a negative effect on reputation.

5. Discussion and conclusion

Researchers recently recommended that research on reputation should move outside of single-country studies and consider national differences in reputation (Brammer & Jackson, 2012; Newburry, 2012). We acted on these recommendations and examined cross-national differences in corporate reputation using institutional theory. We focused on the generalized favorability dimension of reputation, which indicates how well people, not just CEOs and shareholders, (dis-)like the influence of corporations on their lives (Doh et al., 2010; Fombrun, 1996; Lange et al., 2011). We think this is an important issue because reputation is associated with many important issues such as brand trust (Eggers, O'Dwyer, Kraus, Vallaster, & Güldenberg, 2013), the impact of firm sustainability practices on brand value (Gupta, Czinkota, & Melewar, 2013), and the influence of employee social interactions on the building of corporate brands (Vallaster & Lindgreen, 2013). We found that reputation was negatively related to institutional development and masculinity and positively related to power distance in a sample of 401 firms in 25 countries in 2007, 2009, and 2011.

5.1. Contributions to theory

We examined cross-national differences in corporate reputation associated with two common concepts of institutional theory, the development of formal institutions and national culture, a prominent informal institution. We contribute to research on institutional development by finding that people in countries with lower levels of institutional development valued corporations more highly. This finding is contrary to what might commonly be assumed based on a general interest in the positive aspects of institutional development; however, it is consistent with recent efforts to examine more complex relationships between institutional reforms and firm outcomes, such as profitability (Chari & Banalieva, 2015).

Future research could further investigate the underlying mechanisms connecting institutions, corporations, and stakeholders (Jackson & Deeg, 2008; Redding, 2005). We specified several general and specific mechanisms for the effect of institutional development, such as institutional voids (Gaur et al., 2014; Khanna & Palepu, 2006), comparison to state-controlled enterprises (Czaban et al., 2003), and higher expectations in more developed countries (Inglehart, 1971); future research could measure and compare each of these mechanisms. Also, we followed Brouthers (2013) and used a broad measure because there is little knowledge of which institutions influence the wide range of corporate activities and the expectations of individuals regarding these activities. We speculate that individual respondents, a level of analysis we don't have access to, might be influenced by different types of institutions based on their stakeholder relationships. For instance, employees may be more influenced by the labor market and occupational safety, whereas investors may be more attuned to financial market conditions. Thus, future research could match specific institutions to the reputational decisions of particular stakeholders, similar to Brouthers' (2013) recommendation to better match institutions with particular managerial decisions.

We contribute to research on national culture by demonstrating its substantial relationship to corporate reputation—including four variables of national culture in our model almost doubled the variance of reputation explained by 29 firm-level variables. We found that people in countries with higher power distance had greater esteem for corporations, consistent with our theorizing that people from higher power distance cultures are more comfortable with hierarchies of power created by corporations and their roles and positions in these power hierarchies (Pfeffer, 1981). Individualism was not significant. Uncertainty avoidance became non-significant when institutional development was included in the model; this draws attention to the need for future research examining relationships among formal institutions and national culture (Dikova et al., 2010; Jackson & Deeg, 2008). We found a negative relationship between masculinity and corporate reputation, contrary to our hypothesis predicting a positive relationship. We speculate that corporations in more feminine countries have corporate cultures that nurture relationships, provide benefits that enhance quality of life, and value society as a whole. Such arguments are consistent with research finding that masculinity has a negative effect on corporate social and environmental performance (Dimo & Maurizio, 2007). Also, the large corporations in our sample may contribute less to an individual's advancement and recognition valued by masculine societies compared to either rapidly growing entrepreneurial firms or high prestige government employment. Future research could investigate further the relationship between masculinity/femininity and corporate reputation.

We make several contributions to research on corporate reputation. Most prominently, we examined differences in corporate reputation across countries (Brammer & Jackson, 2012; Newburry, 2012), in contrast to most studies that looked within one country, frequently the USA (Fombrun & Shanley, 1990; Philippe & Durand, 2011). Our theorizing and strong results for variables at the national level suggest that the relevant comparison group in cross-national studies of corporate reputation may be organizations from other societal sectors within a country, not just national competitors highlighted in past research (Barnett & Pollock, 2012; Deephouse & Carter, 2005; Fombrun, 1996). We also showed how values inherent in national culture affect individual's assessments of corporate reputation, consistent with recent research on individual assessments of legitimacy (Finch et al., 2015; Tost, 2011).

We included firm-level variables that commonly appeared in past research predicting reputation that applied signaling theory (Fombrun & Shanley, 1990; Philippe & Durand, 2011). Age had a positive effect, as expected. Neither size nor performance had a positive effect, contrary to past research (e.g., Fombrun & Shanley, 1990). We recommend that signaling theory should be complemented by institutional theory in cross-national studies of reputation.

5.2. Managerial relevance

Our study also has contributions to management practice. Within firms' home countries, our results suggest certain elements that company managers should emphasize based on the characteristics of their home environments. Managers need to recognize that reputations are driven not just by firm characteristics but also by their firms' optimal fit with their environment (Brammer & Pavelin, 2006). While managers may not be able to change the locations of their home countries, they may take actions to emphasize elements consistent with the expectations of their local stakeholders. For example, in home countries with more developed institutions, managers should expect that they will need to more thoroughly address the expectations of local stakeholder groups on multiple dimensions (Fombrun, Ponzi, & Newburry, 2015). Despite its prime role in reputation formation, simply performing well financially may not be enough to guarantee a strong reputation with the general public in these markets since the public tends to have higher expectations of firms.

While our analysis was based on evaluations of firms in their home countries, managers of MNCs should recognize that the effects of institutional development and national culture could

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have similar effects on the reputations of their subsidiaries in other countries. In particular, our study suggests that it is particularly important for managers to pay attention to the institutional development of a country when making investments, as more developed countries may have higher expectations regarding corporations, exacerbating the importance of developing good local relationships with local stakeholders. Similarly, investments in more uncertainty avoiding and higher power distance cultures may result in more positive local acceptance as these cultures may welcome the stability and direction associated with large companies, while investments in masculine cultures may be rejected as these cultures view firms as working against local interests favoring human development. Again, since our study examined home country reputations, future research is needed to confirm these managerial implications.

Moreover, as the benefits of corporate reputation become more widely known, favorable attitudes toward large corporations could contribute to FDI decisions. At the collective level, pan-industry associations should promote improving the reputations of individual corporations and of the corporate sector as a whole in countries to contribute to economic advantage (Porter, 1990)—recognizing that long-term improvements result from actions valued by stakeholders rather than impression management (Fombrun, 1996).

5.3. Limitations

Our study has several limitations. Empirical generalizability is one, given that our sample consisted of 401 large companies from 25 economically large countries. Different results may be found for smaller firms from smaller countries. Also, we studied the reputations of firms in their home countries, which controls for liability of foreignness. Future research could study the reputations of MNEs across many countries. Such work could apply some central topics in MNE research, like entry timing and mode, tenure in country, and institutional distance (Berry et al., 2010; Brouthers, 2013; Johanson & Vahlne, 1977). For instance, there could be a country of origin effect for reputation (Newburry, 2012). Future research could also focus on the influence of multinationality on reputation, recognizing that sample sizes could be smaller like in our *post hoc* analysis. Additionally, while we controlled for some of the most common firm-level predictors of firm reputation, we were limited in our ability to obtain other comparable variables because of different reporting standards for our sample; future research could include other firm-level controls while recognizing the impact on sample size.

Another limitation is our choice of the Reputation Institute's measure of reputation. Results may differ for other dimensions and measures of reputation (Fombrun, 2007; Lange et al., 2011). Also, our theorizing focused on the responses of individuals to corporations; stakeholders that are organizations may evaluate corporate reputation in different ways.

We used a broad conceptualization and measure of national institutional development (Brouthers, 2013; Jackson & Deeg, 2008; North, 1990; Scott, 1995). Our arguments and results may not apply to other frameworks that share dimensions with institutional development, such as national business systems (Berry et al., 2010; Ioannou & Serafeim, 2012; Whitley, 1992, 1999), national systems of innovation (Khoury & Peng, 2011; Lehrer & Asakawa, 2002; Nelson, 1993), and varieties of capitalism (Hall & Soskice, 2001; Hartmann & Uhlenbruck, 2015). Future research could investigate if corporate reputation is influenced by these approaches to economic differences across nations.

We used Hofstede's cultural dimensions because their validity, reliability, stability, and usefulness have been confirmed over time and in a wide variety of settings (Hofstede, 2001; Kirkman et al., 2006; Oyserman et al., 2002). To address concerns about the age of the original data, we used updated Hofstede measures (Taras et al., 2012). However, using this framework is a limitation. Future research could use other conceptualizations of national culture; their use may lead to different hypotheses and samples from different countries, which are common concerns when using any measure of national culture. Moreover, future research could incorporate elements of regional and intra-national cultures (Li, Tan, Cai, Zhu, & Wang, 2013; Sasaki & Yoshikawa, 2014).

5.4. Conclusion

We find that three national institutions, institutional development, power distance, and masculinity/femininity, are important for explaining differences in corporate reputation across countries. In so doing, we offer a theoretical complement to past research explaining differences in reputation using corporate signals. We look forward to further research linking national institutions and corporate reputation.

Acknowledgements

We appreciate the comments from Senior Editor Ajai Gaur, three reviewers, Josh Ault, Frans Bevort, Luanne Currie, Terry Elrod, Royston Greenwood, Peter Jaskiewicz, Runjuan Liu, Michael Lounsbury, Trish Reay, and participants at presentations at the International Conference on Corporate Reputation, Image, Identity, and Competitiveness, the Annual Meeting of the Academy of Management, and the University of Victoria. Lei Li provided excellent research assistance. We thank the Reputation Institute for access to the reputation data. This research also has been supported by the Social Sciences and Humanities Research Council of Canada [410-2006-864].

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Please cite this article in press as: Deephouse, D. L., et al. The effects of institutional development and national culture on cross-national differences in corporate reputation. *Journal of World Business* (2016), http://dx.doi.org/10.1016/j.jwb.2015.12.005