

REPUTATION AND ACCREDITATION EFFECT ON ALLIANCE FORMATION

TRACK:

KEY WORDS: ALLIANCE, ACCREDITATION, REPUTATION

ABSTRACT:

In their search for strategic objectives, institutions seek to establish alliances with other institutions in their quest to improve their performance. Institutions consider reputation to be a key factor in the desire of clients and stakeholders to maintain business relations with them. In a similar manner, accreditation is a quality certification which signals the market and stakeholders about the quality of an education institution. This paper aims to analyze the way institutions make strategic decisions related to partnerships and alliances based on their reputations and how accreditation might affect the decision to form such alliances. A sample of 60 universities in Latin America and 1050 of their academic partners are studied to examine the impact of accreditation on reputation and how it influences alliance formation.

INTRODUCTION:

An organization's search to form alliances has become a common tactic to achieve strategic objectives (Harrigan, 1986). Organizations therefore, have incentives to search for partners with whom to form alliances. The search for alliance partners involves several strategic decisions both by the seeker as well as by the alliance acceptor. Reputation has an important role in both the selection of the organization and the decision to form an alliance. "The reputations of new firms and their founders including favorable beliefs, trust, and psychological commitment, are assets

that serve as the foundation of the entrepreneurial 'honeymoon' (Fichman & Levinthal, 1991). Thus, reputations can have a reinforcing effect for the parties involved benefiting from the economic impact of the alliance and improving their reputations.

When seeking for alliance partners, another important issue to evaluate is the quality of products and services. Suggestively, the more signals there exist about the quality of a company; the more probable it should be attractive as a partner.

The following paper aims to describe how reputation affects the number of alliances within the education industry. More so, it will aim to assess the importance of accreditation on reputation and on alliance formation. Is being accredited a signal which contributes to a better reputation? At the same time, does this lead to a higher number of alliances by an education institution?

LITERATURE REVIEW:

Gulati (1995) presents one of the most commonly used and accepted definitions in the literature and seems to incorporate commonalities in other definitions provided in the literature. We therefore use the following definition: "an alliance is any independently initiated interfirm link that involves exchange, sharing or co-development." (Gulati, 1995)

Many authors commonly understand corporate reputation as a "collective phenomena" (Walsh et al. 2009). This means that corporate reputation is not fragmented imagery captured at a certain point in time by a single person. It is rather the collective beliefs, feelings and impressions of the company in various stakeholders' minds (Bromley 2000; Zyglidopoulos, 2001; Brown and Dacin, 2006). Such a view assumes stakeholders have a shared perception although each stakeholder has a different background and past. In the marketing area, corporate reputation is

understood as the external stakeholders' impressions of or mental associations with a company (Brown et al 2006; Ou and Abratt 2006; Highhouse et al 2009).

According to ACEJMC or Accrediting Council on Education in Journalism and Mass Communication, "accreditation in higher education is defined as a collegial process based on self- and peer assessment for public accountability and improvement of academic quality." Cited in (Cret, 2011)

According to Cret (2011), accreditation is supposed to be characterized by two main functions: "the definition and control of a quality threshold (external function) and the overall improvement of education (internal function). For Murray (2012), the role of accreditation is to assure that the standards that uniquely define institutions and programs are adhered to so that their increasingly high costs produce solid value. Other authors consider that to be accredited means "acquiring the official declaration of competence about the quality of a department/program as a result of academic evaluations which are done periodically and appropriate for the accepted quality standards, by the competent institution" (Erkuş ve Özdemir, 2010: 119).

Accrediting agencies also provide definitions for accreditation, such as UKAS (United Kingdom Accreditation Service), which states "Accreditation is a formal, third party recognition of competence to perform specific tasks. It provides a means to identify a proven, competent evaluator so that the selection of a laboratory, inspection or certification body is an informed choice."

Signaling theory includes building, maintaining, and defending a reputation based on projected organizational images (Walker, 2010). It is applied to corporate reputation to explain how the strategic choices of firms represent signals, which are then used by stakeholders to form impressions of the firms (Basdeo, 2006); (Fombrun, 1990); (Turban, 1997).

The signing of agreements and forming of alliances by universities constitutes a strategic decision to help in the imprinting of images by the university. “Not only does the theory examine strategic signals sent out by firms, but it also examines stakeholder interpretations of these signals” (Walker, 2010). Therefore, this theory applies to the study of analyzing the response of stakeholders such as faculty, students, and other universities regarding the universities’ decisions to form an alliance and signal the market. This is specially relevant when the alliance is made with a reputed institution. The availability and signaling of information relative to an institutions reputation influences the strategic decisions of the stakeholders to whether or not form an alliance or partnership.

Authors have studied previously the importance of reputation on attracting alliance partners. “Firm reputation is an important resource (Barney, 1991), one that can attract alliance partners (Dollinger, Golden, & Saxton, 1997). But not only has reputation been studied as a means to attract alliance partners, but it has also been studied as a tool for making the decision of whether or not to accept an alliance or defect. “In game theory, the primary source of information as to the propensity of a partner to defect is the target's reputation” (Weigelt & Camerer, 1988). More so, previous literature also supports the fact that one of the factors that has been offered as a means to increase alliance cooperation is reputation (Houston, 2003) (Stump & Heide, 1996). Therefore, there exists a clear connection between reputation and alliances, and more so, it establishes that reputation is a source for attracting partners and a tool for deciding whether to accept or not.

The attractiveness of a firm, as means for establishing an alliance has also been studied (Ahuja, 2000). The author stated that “the attractiveness of the firm is defined as the extent to which a firm can provide value to its partners by making assets available that are difficult for the partners to create on their own or to obtain elsewhere”. Authors have also established reputation

as an important asset (Barney, 1991) and “in the search for partners, reputation is the most important intangible asset” (Brown, 1994; Fombrun, 1990; Fryxell, 1994; Dollinger, Golden, & Saxton, 1997; Pfeffer, 1978; Wernerfelt, 1984; Weigelt, 1988; Hill, 1990; Saxton, 1997). Therefore, the following hypothesis is stated:

H1: Highly reputed universities will have more alliances than less reputed universities.

When forming alliances the reputation of the seeker is as important as that of the acceptor. High quality suppliers would have incentive to avoid associating with low quality partners, so as not ‘to risk dissipating the economic and social rents generated by a good reputation’ (Stuart TE, 1999). Since we have already established the attractiveness of firms to form alliances, we can also understand such attractiveness from both sides of the alliance formation; seeker wise and acceptor wise. Therefore, we can infer that firms wish not to risk their reputations.

According to (Baden-Fuller & Hwee Ang, 2001) “there is clearly a close connection between having a good reputation and accessing the resources that help maintain that position—success in one sphere helps the other, and winners seem to build a “charmed circle” of resources and benefits”. Cwiak (2014) states that “the perceptions of the various audiences with which an organization interacts both directly and indirectly can enhance or destroy that reputation”. A firm’s reputation influences trust, and that leads to alliances and other inter organizational relationships (Oliver, 1988). Therefore, we can confirm that those belonging to a high reputation charmed circle, as suggested by Baden-Fuller & Hwee Ang (2001) will continue in that circle of resources and benefits and more so, as stated before by Stuart (1999), will not risk their reputation.

Supporting Cwiak’s (2014) statement, reputation transfer can positively as well as negatively enhance or destroy a partner’s reputation. Therefore, highly reputed organizations will

assess with whom to establish alliances. “Reputation can spill over to boost the perceived quality of associated actors (Megginson and Weiss 1991;Swaminathan & Moorman, 2009).

Reputation can reflect an alliance partner's characteristics in the areas of management, product quality, and financial position (Dollinger, Golden, & Saxton, 1997). “A positive reputation can lessen fears of "moral hazard" and "adverse selection" by acting as a surrogate for direct experience with a partner. In the cost-benefit analysis, then, a firm can justify avoiding the costs of internalization by lowering the transaction costs associated with partnering with a reputable entity. Similarly, in game theory, the primary source of information as to the propensity of a partner to defect is the target's reputation” (Weigelt & Camerer, 1988)

Therefore we posit the following hypothesis:

H2: More reputed universities will have more alliances with other high reputed universities than with less reputed universities

We can further imply and test that when organizations have a lower reputation, they will seek the benefits of reputation spill over as stated by (Megginson and Weiss 1991;Swaminathan & Moorman, 2009). More so, they will have no problem in establishing alliances with organizations with similar levels of reputation as the risk of endangering their reputation will not be that high, as stated by Stuart (1999). Therefore, we posit the following hypothesis:

H3: Less reputed universities will have a similar number of alliances with high reputed universities and with low reputed universities.

Previous studies have included in their accreditation definition, that it serves the purpose of increasing quality standards, and although some authors question the results of accreditation, the general academic consensus is that accreditation serves two main purposes which are “assuring

quality” and “engendering private sector confidence” (Eaton, 2011) The Council for Higher Education Accreditation (CHEA) defines accreditation as “a process of external quality review created and used by higher education to scrutinize colleges, universities and programs for quality assurance and quality improvement” (Eaton, 2011) cited in (Brink & Smith, 2012). Therefore, the first step towards establishing a relation between accreditation and reputation lies in understanding that accreditation is a quality assurance tool.

More so, accreditation is considered as a quality stamp. “Institutional theories and authors who directly deal with the introduction of quality assurance processes within the Higher Education sector focus on the distinctive function of accreditations, which are conceived as quality stamps” (Brink & Smith, 2012). But besides accreditations being considered as management tools (Brink & Smith, 2012), accreditations (certifications) help in signaling stakeholders and reduce uncertainty about a firm’s quality. Research on the formation of business school reputation has demonstrated that reputation assessments derive in large measure from perceptions of quality – ‘the degree to which stakeholders evaluate an organization positively on a specific attribute ’ (Rindova et al ., 2005; Vidaver-Cohen, 2007).

In education as in other service sectors, uncertainty regarding the quality of a product is high. “Business school education is arguably part of the cultural industries—most consumers cannot objectively judge all aspects of quality” (Baden-Fuller, 2001). As consumers cannot objectively judge all aspects of quality, they rely on the signals the firm can provide. Similarly, stakeholders also seek for signals in order to help reduce uncertainty about a firm’s reputation. Signals are especially important under conditions of uncertainty where information is scarce (Meyer, 1979; Spence, 1974).

Having established that reputation is information, and that signals are important where information is scarce, we can infer that the objective for a firm is to reduce uncertainty by signaling or providing information. “The decision to “take the plunge” and form an alliance with a newly created firm is likely to be fraught with considerable uncertainty” (Stern et al., 2014). Under such conditions, incumbents are likely to draw on signals of quality, or attributes that are thought to be causally related with the new company’s ability to successfully develop and commercialize the technology for which it has been created” (Stern, Dukerich, & Zajac, 2014; Burton MD, 2002; JM., 2005; Stuart TE, 1999).

Rao (1994) studied how high visibility events, such as winning product quality certification contests, improved the company’s reputation which subsequently improved effectiveness in other areas. As stated before, accreditations serve as signals that help reduce uncertainty. “At the organizational level, signals such as certification from credentialing agencies (e.g., (Baum JAC, 1991); (King AA, 2005); (Terlaak A, 2006) (Rao, 1994) media rankings (Rindova V, 2005); (Wade JB, 2006), and hiring of prestigious executives and directors (Chen G, 2008) have all been shown to reduce uncertainty about firms’ quality and future prospects in the eyes of key stakeholders” (Stern I, 2007). It can therefore be inferred that international accreditations are visible at an international level, and therefore serve as better signals for potential partners than national accreditations. Therefore, we posit the following set of hypothesis:

H4: Accreditation in the education industry will moderate the relation between reputation and number of alliances.

Methodology:

Data collection and samples:

The educational sector was chosen, as it provided a dynamic alliance and partnership environment where universities, schools, and education institutions in general sign multiple alliance agreements and maintain partnerships with other related and nonrelated institutions. More so, the importance of reputation in education is considered to be critical, and after the Health Care Sector, reputation of higher education institutions represented a core brand value. “Evidence from the higher education sector demonstrates that the risk of brand or reputation damage to an institution is significant.” (Metrica, s.f.)

Within the educational sector, universities in Latin America were chosen as the sample for the study. The Latin American context is chosen due to the levels of accreditation and the diversity and recognition of the region as a growing and high interest industry for both private and government institutions. The sample consists of 60 universities from Latin America with accreditations at national and international levels. The sample is extracted from the rankings provided by the QS World Rankings for Latin America.

The collection of the data had three distinctive parts. The first was the selection of 60 universities from the 200 Latin American QS ranking for both Academic Reputation¹. Next, data was collected for the number of alliances with other universities for each of the universities from their websites. Therefore, we had each of the 60 universities with their respective partner institutions.

¹ Score calculated based on the results of a major global survey of academics conducted each year. Respondants are asked to name the universities they perceive to be producing the best work in their own field of academic expertise. QS World Ranking, www.topuniversities.com

The third and final step in the data collection process was finding the academic reputation of each of the partner institutions for each of the universities in the QS 400 academic reputation ranking. The number of partner institutions analyzed for the 60 universities totaled 1054 partner institutions. Finally, data is analyzed through independent samples t-test, paired sample t-tests for hypothesis 1 through 3, and a multiple regression is used for testing the moderation effect on hypothesis 4.

Results:

In order to test H1, the data was organized according to the level of reputation of the Latin American Universities. The first group, recognized as Group 1, were the 30 most reputable universities according to the academic reputation QS index. H1 was supported, indicating that there is a significant difference between the number of alliances high reputed universities have compared to that of low reputed universities. Results are summarized in the following table.

Group Statistics

Universities' Academic Reputation		N	Mean	Std. Deviation	Std. Error Mean
Alliances Number	High Universities' Academic Reputation	30	24.367	25.5606	4.6667
	Low Universities' Academic Reputation	30	10.633	9.0267	1.6480

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Alliances Number	Equal variances assumed	9.735	.003	2.775	58	.007	13.7333	4.9492	3.8265	23.6402
	Equal variances not assumed			2.775	36.123	.009	13.7333	4.9492	3.6972	23.7695

H2 is also supported for academic reputation, indicating that Latin American universities with high reputation form alliances with highly reputed universities more than with less reputed universities.

Paired Samples Statistics				
	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 Alliances Highly Academic Reputation Universities Partners [>50pts]	14.467	30	17.4054	3.1778
Alliances Lowly Academic Reputation Universities Partners [<50pts]	9.900	30	9.1740	1.6749

Paired Samples Test ^a								
	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Alliances Highly Academic Reputation Universities Partners [>50pts] - Alliances Lowly Academic Reputation Universities Partners [<50pts]	4.567	10.994	2.007	.461	8.672	2.275	29	.030

a. Universities' Academic Reputation = Highly Academic Reputation

H3 was also supported. This indicates that there is not a significant difference between the number of alliances less reputed Latin American universities form with high and low reputed universities. This would suggest an indifference when choosing an alliance partner based on reputation.

Paired Samples Statistics^a

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 Alliances Highly Academic Reputation Universities Partners [>50pts]	5.73	30	5.119	.935
Alliances Lowly Academic Reputation Universities Partners [<50pts]	4.90	30	4.880	.891

a. Universities' Academic Reputation = Lowly Academic Reputation

Paired Samples Test^a

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Alliances Highly Academic Reputation Universities Partners [>50pts] - Alliances Lowly Academic Reputation Universities Partners [<50pts]	.833	4.308	.787	-.775	2.442	1.060	29	.298

a. Universities' Academic Reputation = Lowly Academic Reputation

H4 was also supported, indicating that a moderation exists when a Latin American university is accredited internationally, and that the moderation is a positive one.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9028,316	3	3009,439	11,153	,000 ^b
	Residual	15110,68	56	269,834		
	Total	24139,00	59			

a. Dependent Variable: Alliances Total

b. Predictors: (Constant), XZ_AR, Academic Reputation, Accreditations Type

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.223	5,487		-,041	,968
	Academic Reputation	,275	,094	,363	2,934	,005
	Accreditations Type	-55,412	25,005	-1,030	-2,216	,031
	XZ_AR	,781	,298	1,255	2,617	,011

a. Dependent Variable: Alliances Total

Discussion:

The benefits of forming alliances in the education industry provides universities with resources which helps not only in the selection of the university by the student when deciding where to study but also with the benefits associated with the alliance itself; such as joint programs, double degrees, international teachers, international students, research and others.

The implications of the study are useful to university presidents and international relations directors regarding the importance of reputation and accreditation on number of alliances. More so, results demonstrate the moderating effect of being accredited internationally over number of alliances. Academic implications lead to consider quality signaling through accreditation as a strong influence on what theory establishes as the main reason for choice when accepting or defecting to accept an alliance partner.

This paper is the preliminary work of future research on the topic of accreditation, reputation and its implications on alliance formation. Topics of discussion arise from the results with 60 Latin American universities and the analysis of their partner universities and their level of reputation. Such topics include the decision to form an alliance when having a lower reputation than alternative partner firms. Future research can further explore the effects of accreditation at different levels of reputation and in different areas within the education industry or among different industries.

Conclusions:

This paper reaches several conclusions. Effects of reputation on number of alliances are confirmed in a sector with high rates of uncertainty such as the education industry. More so, reputation is confirmed as having different effects on number of alliances according to the degree of reputation Academics provide a university. To this sense, highly reputed universities tend to form alliances with other highly reputed universities more than with less reputed universities. On the other hand, less reputed universities seem to form alliances indistinctly among high and low reputed universities. Finally, the importance of signaling through accreditation was analyzed, and

the moderating effect of accreditation on the relation between reputation and number of alliances was confirmed.

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