The effects of country of origin and corporate reputation on initial trust
An experimental evaluation of the perception of Polish consumers

Manuel Michaelis
Marketing Center Muenster (MCM), University of Muenster, Muenster, Germany
David M. Woisetschläger
Technische Universität Dortmund, Dortmund, Germany, and
Christof Backhaus and Dieter Ahlert
Marketing Center Muenster (MCM), University of Muenster, Muenster, Germany

Abstract
Purpose – The purpose of this paper is to investigate the simultaneous effects of country of origin (COO) and corporate reputation on initial trust in a transition economy, and to compare these effects across two service industries. The model broadens COO research by incorporating initial trust as a key driver of success in the context of services internationalization.

Design/methodology/approach – Poland is the transition economy studied. A total of 184 respondents evaluated different service combinations (high vs low reputation/home country vs foreign country) in two different service categories (high risk vs low risk). Relationships between constructs are tested, employing a between-subject experimental design.

Findings – Both reputation and the risk level of service have a significant main effect on initial trust. Furthermore, results indicate a highly significant interaction effect: a positive COO effect leads to a higher level of initial trust only in the case of a risky service.

Research limitations/implications – As with all laboratory studies, external validity is limited. Further research should focus on other instruments for gaining initial trust (e.g. warranties), especially in the case of a negative COO image.

Practical implications – International marketers of services must carefully consider COO information as a means of building initial trust. Positive effects only apply in the case of high-risk services.

Originality/value – A major contribution is the introduction of initial trust as an important mediator in COO-related international service marketing literature. As a second contribution, COO effects were compared across different service categories with respect to perceived risk. Furthermore, investigating COO effects in transition economies is of particular interest, as such markets are gaining attraction for international service providers.

Keywords Country of origin, Corporate image, Trust, Service industries, Poland

Paper type Research paper

The authors wish to thank Heiner Evanschitzky, University of Strathclyde, Glasgow, UK, and the two anonymous reviewers for their insightful comments on earlier drafts. Furthermore, thanks are expressed to Nickie Povel for her help in collecting the data for this study, and to the German Ministry for Education and Research (BMBF – FKZ 01 HQ 0523) that financially supported this research.
Introduction

Along with the growth of the service sector in general, international trade in services has become a driving force in global trade (Javalgi et al., 2003). Despite the growing importance of services in the global economy, the majority of international marketing literature examines the country-of-origin (COO) effect with respect to products, whereas only limited research has been conducted on the effect of COO on services (Ahmed et al., 2002). The existence of COO effects, i.e. the impact of a COO label on consumer perceptions of a product or service (Bruning, 1997; Chao et al., 2005), has already been amply demonstrated in various services settings (e.g. Wetzel et al., 1996) utilizing service provider image (e.g. Al-Sulaiti and Baker, 1997), service quality perception (e.g. Ahmed et al., 2002; Pecotich et al., 1996), or purchase intention (Kaynak et al., 1994) as dependent variables. However, less is known about the effects of COO on mediators such as trust, which have been identified as key drivers of relationship outcomes (e.g. purchase intention) (Palmatier et al., 2006).

A service company that enters a foreign market must quickly establish trust in order to lower the risk associated with its offers. For newcomers, this task is especially challenging because potential consumers cannot develop a trust in the company based on their own experiences with the company. Rather, trust will develop on the basis of extrinsic cues such as COO and corporate reputation. This foundation of trust refers to the concept of “initial trust,” which has been introduced by McKnight et al. (1998). Initial trust is an essential precondition for financial success, especially in the context of international service companies. Therefore, this paper contributes to the literature by investigating the effects of COO and corporate reputation on initial trust. In addition, the following analysis has been conducted in two different service settings. As COO effects have been found to vary between product classes (Kaynak and Cavusgil, 1983), it is meaningful to compare different service categories, as recommended by Balabanis and Diamantopoulos (2004). However, research reveals only two studies that have investigated COO effects by comparing service industries (i.e. Pecotich et al., 1996; Lin and Chen, 2006). Therefore, the effects of two trust-building strategies (corporate reputation and COO) are examined for two distinct categories of services (high level of risk versus low level of risk) in an experimental design.

In particular, the importance of initial trust applies to service companies entering transition economies. It can be assumed that the radical strategic and organizational changes in transition economies (Meyer and Peng, 2005) have an impact on sociocultural values, and thus may also affect consumer trust and risk-taking behavior. In addition to our consideration of the impact of transition economies, we recognized that studies of Eastern European states are rare in international marketing research, and accordingly chose an Eastern European country for this study. Germany was selected as country of origin for the foreign service company because it is the largest business partner for most Eastern European countries. Poland was chosen because it is the strongest export market for Germany among the states in Eastern Europe (excepting Russia). Within the retailing sector, for example, six out of the top ten retailers in Poland are Western European companies, with the German Metro accounting for nearly 25 percent of sales for the total top ten retailers in 2004 (Coe and Hess, 2005).
Theoretical background and hypothesis development

Services internationalization and perceived risk

The phenomenon of service internationalization has been widely acknowledged in academic literature (Knight, 1999). Along with the growth of the service sector in general, international trade in services has become a driving force in global trade (Javalgi et al., 2003). However, despite the importance of services in the global economy, literature on service internationalization remains relatively sparse (Knight, 1999; Styles et al., 2005). Due to the general characteristics of exporting services such as intangibility, perishability, heterogeneity, and inseparability (Zeithaml et al., 1985), exporting services present specialized consumer-related challenges, implying a need for extensive customization and cultural adoption.

From a consumer perspective, these distinctive service characteristics affect the risk, perceived prior to the consumption of services (Conchar et al., 2004; Bebko, 2000; Murray and Schlacter, 1990): The intangibility of a service increases the perceived risk of a mispurchase. Perishability can result in a minor quality in the case of an excess demand (Mitchell and Greatorex, 1993). Due to a service’s heterogeneity and intangibility, the service quality can hardly be evaluated based on prior usage (Guseman, 1981; Grewal et al., 2007). Additionally, the inseparability of production and consumption forces the consumer to take part in the production process, which can imply perceived risk (Zeithaml et al., 2006).

Initial trust

The concept of trust, in general, can be understood as the condition of having confidence in the reliability and integrity of an exchange partner (Morgan and Hunt, 1994). Traditional trust theorists propose that trust develops over time. However, empirical results reveal that consumers can have high levels of trust even when parties barely know each other (McKnight et al., 1998). In their seminal work, McKnight et al. (1998) explain why trust may be high when parties meet or interact for the first time. This “paradox” of high trust levels at the very beginning of a relationship is referred to as “initial trust” (McKnight et al., 1998). Initial trust, thus, can be defined as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer et al., 1995) at the initial phase of a relationship between two parties.

Companies that enter new markets face a similar situation: customers in the local market have no experience with the company. Because affective bonds with the foreign company have not been established (Bigley and Pierce, 1998), a key success factor for internationalization of services is to convince customers in the local market to trust the new vendor. Thus, it is argued that the concept of initial trust can also be applied in the context of services internationalization. Little is known about how to build trust in an international service setting (Suh et al., 2006), however. Marketing instruments such as brands, trademarks, or guarantees have been found to be useful tools in promoting the building of trust (Schurr and Ozanne, 1985). From an information economics perspective, these instruments function as signals. Signaling is important when one party is unfamiliar with the other party’s quality, and the quality cannot be observed prior to the exchange between the two parties (Soberman, 2003). In these conditions, signaling can trigger exchanges, which would not occur without the signaling. In our
study, we focus on corporate reputation and the COO as signals and means to increase initial trust.

Corporate reputation
Corporate reputation can be defined as “perceptions held by people inside and outside a company” (Fombrun, 1996). It reflects a trustee’s former consistent behavior and is therefore a source of information about a company’s trustworthiness. Because influencing these perceptions in a positive manner requires financial and non-financial efforts, corporate reputation can be seen as an asset (Dasgupta, 1988). Companies possessing such an asset are willing to forebear inconsistent or opportunistic behavior in order not to risk their favorable corporate reputation (Chiles and McMackin, 1996; Yamagishi and Yamagishi, 1994). Several instruments exist which can be used by companies to portray their corporate reputation in terms of credentials, including awards, and articles in reliable journals and newspapers (Sztompka, 1999).

With respect to service characteristics, Wang et al. (2003) argue that corporate reputation is of specific importance in service industries “because the prepurchase evaluation of service quality is necessarily vague and incomplete” (Wang et al., 2003). Thus, it can be assumed that service firms, especially, can benefit from the effects of corporate reputation (Fombrun, 1996; Walsh and Beatty, 2007).

COO effect
The COO effect is one of the most examined phenomena in the field of international marketing (Amine et al. 2005). In general, the COO is an informational cue which “triggers a global evaluation of quality, performance, or specific product/service attributes” (Bruning, 1997). The COO information is provided by the phrase “Made in…” with the country name (Jaffe and Nebenzahl, 2001).

The COO is considered an extrinsic factor in the decision-making process of the consumer, and is a remedy for risk reduction (Cordell, 1992). Maheswaran (1994) discovered that consumers are more likely to use COO cues to evaluate new products rather than using intrinsic product attributes. As a reason for this, Thorelli et al. (1989) found that consumers use extrinsic cues when intrinsic cues are not given or are hard to evaluate. Particularly with foreign products, the COO effect is often used as a substitute when knowledge about quality and performance is missing, because consumers are often less familiar with foreign products (Parameswaran and Pisharodi, 1994).

While the existence of COO effects has already been proven in various services settings, only two studies compare COO effects across different service settings. Pecotich et al. (1996) shows that service quality perceptions fluctuate depending on the COO of services, and that the level of economic development of the analyzed countries contributes positively to the evaluation of service quality. Using airlines and banks as research models, they found a significant COO effect for both service categories. Moreover, results revealed potential differences between the strength of COO effects across service settings. Using existing brands, however, the effects could not be traced back solely to the service category, but the effects could also be influenced by the brands. Lin and Chen (2006) investigated COO effects on purchase intention and found a significant effect for both catering services and insurances. However, they analyzed the two service categories only to differentiate between levels of product knowledge.
and product involvement. Nevertheless, corporate reputation and COO differ in nature. Corporate reputation can be influenced by a company itself, but to gain positive effects of COO companies must rely on the behaviors of an entire society or country. With respect to COO, additionally, managers still have freedom to maneuver; the question of interest is whether to make use of the COO as a signal for quality or, in the case of a negative country image, to disguise it.

**Research framework and hypotheses development**

Various theoretical models have been developed to analyze antecedents and consequences of trust. We base our research framework upon the seminal works of Mayer et al. (1995), and that of McKnight et al. (1998). Accordingly, we assume that trust is influenced by the trustee’s and trustor’s characteristics, and we include corporate reputation and COO as trustee’s characteristics in our model. Because the perceived risk of a situation plays a crucial role in risk taking, in our context different levels of risk are associated with different kinds of services.

With respect to the risk level of a service, we expect a negative effect of risk on initial trust, drawing on risk theory (Bauer, 1960). Bauer (1960) proposes the view that consumers avoid risky situations and apply strategies in order to reduce the perceived risk in a specific situation. A risky situation exists if a consumer is only able to assess the consequences of his or her behavior (i.e. the actual behavior of a trustee) with a low degree of probability. According to risk theory, a consumer will prevent such consequences by not trusting the company. In accordance with studies by Nelson (1970) and Darby and Karni (1973), we expect insurance, in comparison to mobile telecommunications services, to be of higher credence qualities, and therefore to be riskier from a consumer perspective. Hence, we hypothesize:

**H1.** Perceived risk of a service has a negative influence on initial trust.

Empirical findings indicate that corporate reputation positively influences a number of customer-outcome variables (Walsh and Beatty, 2007), including trust (Doney and Cannon, 1997; Ganesan, 1994). Because building corporate reputation implies ongoing consistent behaviors of a company, consumers will assume that companies with a favorable corporate reputation are more likely to meet consumers’ expectations. Therefore, consumers are more likely to trust these companies. As Doney and Cannon (1997) argue, the trustworthiness is influenced especially by other people and organizations, which have a relationship with the trustee.

Drawing on reputation categorization (McKnight et al., 1998), it is proposed that these mechanisms especially apply to the formation of initial trust. In the absence of firsthand knowledge, consumers draw heavily on second-hand information about the trustee. Therefore, in the case of a positive corporate reputation, consumers “will quickly develop trusting beliefs” (McKnight et al., 1998, p. 481) about that company. Drawing on information economics and reputation categorization, we propose:

**H2.** Corporate reputation has a positive impact on initial trust.

Besides the effect of corporate reputation on trust, COO can also influence trust (Zaheer and Zaheer, 2006). As part of our discussion of the influence of COO on initial trust, we first draw on categorization theory (Rosch, 1978). In accordance with Rosch (1978), individuals make use of various categories to describe characteristics of objects in
order to reduce cognitive effort. Objects that combine most of a category’s characteristics are defined as prototypes. When confronted with a new stimulus, individuals categorize the stimulus by comparing it with the prototype. Prior knowledge associated with the prototype will be applied to the new stimulus (Rosch, 1978). Following this rationale, countries can be viewed as categories. Based on the positive or negative experiences associated with a prototype within such a category, consumers will reduce or increase their initial trust towards a new stimulus. Because those prototypical associations will vary across countries (Balabanis et al., 2002), we must analyze these associations for both countries of interest (here: Poland and Germany). In accordance with recent studies, we expect Polish consumers to have a favorable image of German products and services (Raabe, 2006). Huddleston et al. (2001) found that Polish consumers only prefer foreign products and services that have superior characteristics relative to the domestic alternatives available. Therefore, we do not propose a general COO effect on the perception of trust, but expect this effect to vary over categories (Balabanis and Diamantopoulos, 2004).

We expect that service characteristics (i.e. high risk level versus low risk level) moderate the influence of COO effects on initial trust. Drawing on the basic premise of consistency theories, individuals will strive for cognitive consonance when confronted with a risky situation (Festinger, 1957). In our setting, cognitive dissonance exists when a consumer is asked to trust an unknown company, under the condition of knowing that it offers a risky service. Consumers are likely to take other information cues (e.g. brand, COO) into account in order to resolve the dissonant situation. In contrast, we expect that in a low risk situation consumers will not take additional information cues into account, because they are already in a cognitively consonant situation. Our study uses fictional brand names, so we expect this interaction effect to be relevant only in the case of COO effects.

Hence, we hypothesize:

**H3.** Perceived risk of a service enforces the positive relationship of COO on initial trust.

Last, we consider the trustor’s characteristics as covariates. General trust is seen as a personality trait because it is a quite stable characteristic in terms of time (Rotter, 1980). Rotter (1967) proposes that general trust is highly relevant in those situations in which the trustor has no personal experience with the trustee. Such a situation applies to a service provider entering a foreign market. In general, consumers with a high level of general trust are assumed to be more willing to trust an unknown company in all cases (Stack, 1979). Several studies reveal a moderating effect of ethnocentrism on COO. Ethnocentric consumers evaluate products or services of their own country as superior to those from foreign countries (see, Klein et al., 2005; Shimp and Sharma, 1987). Thus, we include general trust and ethnocentrism as covariates in our analysis to increase the power of the statistical tests. Figure 1 summarizes the conceptual model of our study.

**Methodology**

*Design sample and data collection*

In order to test our hypotheses we developed an experimental fixed-factor $2 \times 2 \times 2$ between-subjects factorial research design. The design consisted of the following three
factors: corporate reputation (indicated by a third party versus no corporate reputation indicated by a third party), COO (Germany versus Poland), and perceived risk of a service (mobile telecommunication provider versus insurance company).

We employed a scenario-based manipulation of all three factors because scenarios are expected to reduce artificial settings in experimental research. Our stimuli were eight different fictitious scenarios presented as articles in a well-known and reliable Polish newspaper (see Table I – manipulations are given in brackets), using fictional brand names for each service in order to remove influence due to previous brand evaluation and knowledge (Zhang and Gelb, 1996):

In order to differentiate between services with a high level of risk (i.e. insurances) and a low level of risk (i.e. telecommunications), we conducted a pilot study \((n = 315)\) which revealed that the two service categories differ significantly in terms of perceived risk (mean life insurances \(= 4.25\), mean mobile telecommunication contract \(= 3.75;\) Brown–Forsythe \(= 9.14, p < 0.01\)). The concept of perceived risk implies that the trustor already has an idea about the consequences associated with the consumption of a service, and about its occurrence probability. Therefore, it is essential to choose as a stimulus those services, which are known by the consumers and are not highly innovative. (Littler and Melanthiou, 2006).

The Polish market for mobile telecommunication services is dominated by an oligopoly consisting of three providers: Polska Telefonia Komórkowa (PTK) Centertel, Polkomtel S.A. (31 percent market share), and Polska Telefonia Cyfrowa (PTC, half-owned by the German telecommunication company Deutsche Telekom (UKE, 2006). In 2005, the market grew by 26.3 percent in real terms (Bychawski, 2006). In contrast, the Polish life insurance industry is less consolidated but still highly competitive, with six insurance companies accounting for roughly 74 percent market share. For the most part, Polish insurance companies cooperate within strategic alliances with foreign partners. German companies account for 36.04 percent of all foreign direct investments within this industry (Bychawski, 2006). Hence, investments from Germany play a significant role in the market in both industries.

**Procedures and sample**

Data collection was carried out by means of a self-completion questionnaire, using the “drop off and collect method” (Brown, 1987). To control for person-related effects,
questionnaires were administered randomly to participants. With respect to internal validity, we collected data from 200 students of the Academy of Physical Education in Krakow, Poland, to control the sample's homogeneity. Students are a highly relevant target group for both services categories. Companies strive to gain new customers who are young and promising in terms of future income. Distribution of mobile phones is very high among students, with 98.9 percent of the respondents indicating that they had already signed a contract. Moreover, insurance companies are targeting students for long-term health, accident, pension, and life insurance contracts.

In order to obtain an equal cell size for ANCOVA, we had to eliminate questionnaires, finally leading to a cell size of 23 for each stimulus and 184 in total. We checked for sub-sample differences for age and gender and did not find statistically significant differences ($p > 0.05$). The average age of participants is 21.3 years ($SD = 1.5$), ranging between an average of 20.9 (1.5) and 22.0 (1.6) years per cell. 

<table>
<thead>
<tr>
<th>High risk (insurance)</th>
<th>External reputation</th>
<th>No external reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>At its press conference, the new German (Polish) insurance company GermanLife (PolishLife) announced its market entry in Poland within the next year. GermanLife (PolishLife) will offer its entire range of insurance to Polish customers, including health, accident, pension, and life insurances. At this year’s international exhibition for insurances, GermanLife (PolishLife) offers satisfaction through its innovative offerings. Based on a comparison of all exhibitors, a well-known and reliable trade magazine rated GermanLife (PolishLife) as the best insurance company of the exhibition.</td>
<td>At its press conference, the new German (Polish) insurance company GermanLife (PolishLife) announced its market entry in Poland within the next year. GermanLife (PolishLife) will offer its entire range of insurance to Polish customers, including health, accident, pension, and life insurances.</td>
<td></td>
</tr>
<tr>
<td>Low risk (mobile phone)</td>
<td>At its press conference, the new German (Polish) mobile telecommunication provider GermanTel (PolishTel) announced its market entry in Poland within the next year. GermanTel (PolishTel) will offer its whole assortment of services to Polish customers, including mobile phones, accessories, prepaid and term contracts. At this year’s international exhibition for telecommunication, GermanTel (PolishTel) offers satisfaction through its innovative offerings. Based on a comparison of all exhibitors, a well-known and reliable trade magazine rated GermanTel (PolishTel) as the best provider of the exhibition.</td>
<td>At its press conference, the new German (Polish) mobile telecommunication provider GermanTel (PolishTel) announced its market entry in Poland within the next year. GermanTel (PolishTel) will offer its whole assortment of services to Polish customers, including mobile phones, accessories, prepaid and term contracts.</td>
</tr>
</tbody>
</table>

**Table I.**
Scenarios of the $2 \times 2 \times 2$ between-subjects experimental design
total 60.7 percent of the respondents are female, ranging between 38.1 percent and 85.7 percent on a cell-level.

**Measurement**

Conceptualization and items for measuring the constructs were developed, drawing on prior research in the literature, using multi-item seven-point-Likert-type scales with anchors of 1 = strongly disagree and 7 = strongly agree. Based on McKnight *et al.* (2002), we conceptualize initial trust as a uni-dimensional construct. With limited exposure to the stimuli, subjects are not able to develop trusting beliefs that can be differentiated in benevolence, integrity, and competence (McKnight *et al.*, 2002). Furthermore, respondents were asked only to rate items measuring the company’s integrity and competence. We did not consider items measuring benevolence as part of initial trust in this specific context, because we did not expect our stimuli to influence these items. As covariates, a consumer’s disposition toward trust and ethnocentrism were included in the analysis. Based on the General Trust Scale (Yamagishi and Yamagishi, 1994), we considered three items to measure a consumer’s general trust. Ethnocentrism was measured by five items of the CETSCALE (Shimp and Sharma, 1987).

Measurement reliability of the two reflective constructs, general trust and initial trust, was examined through confirmatory factor analysis and the calculation of Cronbach alpha coefficient (Cronbach, 1951). Analyses were conducted separately for the constructs. Table II shows the values of composite reliability gained on the basis of confirmatory factor analysis and the values of coefficient alpha.

Notably, the coefficient alpha is larger than 0.7, the threshold generally proposed in the literature (Nunnally, 1978; Hair *et al.*, 2006) for the two examined constructs. Composite reliabilities for the two constructs exceed 0.6, the generally recommended threshold (Bagozzi and Yi, 1988). Moreover, discriminant validity between the

<table>
<thead>
<tr>
<th>Scale/Item</th>
<th>Coefficient alpha</th>
<th>Composite reliability</th>
<th>Variance extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initial trust</strong> (McKnight <em>et al.</em>, 2002)&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.958</td>
<td>0.955</td>
<td>0.727</td>
</tr>
<tr>
<td>1. X is truthful in its dealings with me</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. I would characterize X as honest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. X would keep its commitments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. X is sincere and genuine</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. X is competent and effective in providing its service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. X performs its role of offering service very well</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Overall, X is a capable and proficient company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. In general, X is a very knowledgeable about its provided services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>General trust</strong> (Yamagishi and Yamagishi, 1994)&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.877</td>
<td>0.884</td>
<td>0.717</td>
</tr>
<tr>
<td>1. Most people are basically honest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Most people are trustworthy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Most people are basically good and kind</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table II. CFA of constructs

Notes: * Seven-point scale anchored at 1 = strongly disagree and 7 = strongly agree; Goodness-of-fit statistics: CFI (0.924); TLI (0.91); RMSEA (0.076); SRMR (0.044)
constructs is given, because none of the squared correlation coefficients between any of the constructs exceeds the average variance extracted for a construct (Fornell and Larker, 1981). Therefore, reliability and validity of the constructs in this study are acceptable. Correlation between the two constructs is low (0.184) but significant, which is a required assumption for ANCOVA.

Results
It is prudent to check those manipulations that involve latent variables, which cannot be changed directly (Perdue and Summers, 1986). Therefore, we checked risk level of service and corporate reputation only, because COO was altered directly within the stimuli. Participants perceived the risk of life insurances as significantly higher than the risk of mobile telecommunication contracts (mean life insurances = 4.03, mean mobile telecommunication contract = 3.61; Brown–Forsythe = 5.11, $p < 0.05$). Furthermore, mean corporate reputation ratings differed significantly (mean with corporate reputation = 4.41, mean without corporate reputation = 3.88; Brown–Forsythe = 10.03, $p < 0.01$). We fulfill the requirements given by Perdue and Summers (1986) “to establish that the manipulation produced a large enough variance in the indented independent variable to provide for a meaningful test of the hypotheses of interest“ (Perdue and Summers, 1986, p. 321).

Results were analyzed using ANCOVA, with risk level of service, corporate reputation, and COO being the independent variables. As a covariate, disposition to trust was included in the model to determine its possible influence and to increase the power of the statistical tests. Additionally, we controlled for consumer ethnocentrism (Shimp and Sharma, 1987), including this construct as a covariate in the model. Having checked the required assumptions (e.g. Hair et al., 2006), we did not find a significant main effect on the dependent variable. Therefore, we excluded consumer ethnocentrism from the following analysis. We use factor means as values for the dependent constructs.

We checked for the required assumptions discussed in the existing literature (e.g. Tabachnik and Fidell, 2001). Results of the ANCOVA indicate two significant main effects and a highly significant interaction effect (COO $\times$ Risk Level of Service). The influence of the covariate “general trust” is also significant. Following Cohen (1988), the strength of the effects is small; only the interaction effect between COO and risk level of service is close to the 5.9 percent level of a middle-sized effect. Last, we conducted post-hoc tests to determine whether the hypothesized effects work in the proposed direction.

Overall, there is a significant influence of the risk level of service on initial trust, giving proof for $H1$. As depicted in Tables III and IV, corporate reputation has a significant main effect on initial trust. The additional information that a well-known and reliable trade magazine rated the company as the best among all exhibitors leads to more initial trust compared to a situation in which such information was not given. This finding confirms our hypothesis $H2$. As stated in $H3$, initial trust is influenced by an interaction effect (Figure 2); the COO effect must be analyzed in both cases for:

- a service with a high-perceived risk (i.e. insurances); and
- a service with a low perceived risk (i.e. mobile telecommunication services).
Table III. Results of ANCOVA

<table>
<thead>
<tr>
<th>Effect</th>
<th>Factor</th>
<th>d.f.</th>
<th>F-Value</th>
<th>Eta-Square (η²) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main effects</td>
<td>Risk level of service</td>
<td>1</td>
<td>4.863 *</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>Reputation</td>
<td>1</td>
<td>6.375 *</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>COO</td>
<td>1</td>
<td>2.323</td>
<td>1.3</td>
</tr>
<tr>
<td>Interaction effect</td>
<td>Reputation × COO</td>
<td>1</td>
<td>0.660</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>Reputation × Risk level of service</td>
<td>1</td>
<td>1.534</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>COO × Risk level of service</td>
<td>1</td>
<td>9.965 **</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>Reputation × COO × Risk level of service</td>
<td>1</td>
<td>1.203</td>
<td>0.7</td>
</tr>
<tr>
<td>Covariates</td>
<td>Disposition to trust</td>
<td>1</td>
<td>7.121 **</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Notes: * p < 0.05; ** p < 0.01; n = 184

Table IV. Results of post-hoc tests

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Initial trust (direct effects)</th>
<th>Initial trust (interaction effect)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brown-Forsythe MV (SD)</td>
<td>Brown-Forsythe MV (SD)</td>
</tr>
<tr>
<td>Reputation</td>
<td>4.784 *</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>MV (SD) 4.705 (1.05)</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>MV (SD) 4.369 (1.02)</td>
<td></td>
</tr>
<tr>
<td>COO × Risk level of service</td>
<td>Risk level of service</td>
<td></td>
</tr>
<tr>
<td>Brown-Forsythe</td>
<td>10.518 **</td>
<td>0.890</td>
</tr>
<tr>
<td>Poland</td>
<td>MV (SD) 4.016 (1.11)</td>
<td>4.802 (0.93)</td>
</tr>
<tr>
<td>Germany</td>
<td>MV (SD) 4.728 (1.00)</td>
<td>4.614 (1.00)</td>
</tr>
</tbody>
</table>

Notes: * p < 0.05; ** p < 0.01; MV = Mean value; SD = Standard deviation

Figure 2. Interaction effect of risk level of service and COO on trust
The German insurance ($MV = 4.728$) company is trusted significantly higher compared to a Polish insurance company ($MV = 4.016$). Thus, a positive COO effect leads to a higher level of trust in the case of a risky service. In contrast, a positive COO does not affect initial trust positively when risk is perceived as low: the Polish mobile telecommunication provider ($MV = 4.802$) is evaluated better than the German company ($MV = 4.614$). However, the difference is not statistically significant. This finding confirms our hypothesis $H3$.

**Implications and discussion**

**Theoretical implications**

The purpose of this study was to investigate the effects of COO and corporate reputation on initial trust. Especially in the context of services, initial trust can be seen as a precondition for a successful entry in foreign markets. In comparison to products, services are usually characterized by higher levels of credence qualities (Nelson, 1970; Darby and Karni, 1973), which is associated with higher perceived risk. However, as perceived risk also varies across service categories, two different service categories were compared.

The hypothesized positive direct effect of corporate reputation on initial trust is in line with current literature proposing that corporate reputation is of significant importance in services settings and positively influences trust towards a company (Walsh and Beatty, 2007). Thereby, with most studies focusing on mechanisms to build corporate reputation, our study contributes to the literature addressing potential consequences of corporate communication in services settings, an area that has received limited empirical attention (Jones et al., 2000). Moreover, corporate reputation is found to be a suitable instrument for building initial trust, regardless of the risk associated with the respective service category.

Results do not reveal a direct effect of COO on initial trust. Rather, COO was found to have an influence on trust only in the case of risky service. Huddleston et al. (2001) provide a possible explanation for the lack of the hypothesized direct effect, finding that Polish consumers only prefer foreign products and services that have superior characteristics relative to the domestic alternatives available. Thus, the effect of COO on initial trust does not hold across all kinds of services, but varies over categories (see, Ahmed et al., 2002; Balabanis and Diamantopoulos, 2004).

The significant COO by perceived risk interaction effect on initial trust is consistent with this observation. Polish consumers rated initial trust higher in the case of high-perceived risk (i.e. life insurances). The manipulations checks confirmed that risky services are trusted less than services associated with low perceived risk.

This study is one of the first in COO literature to address the issue of using perceived risk as a categorization variable for services. While the issue of risk perception is regarded as meaningful when consumers evaluate foreign products (Baumgartner and Jolibert, 1977), this issue is even more definitive when foreign services are evaluated. Nevertheless, the underlying mechanisms work similarly for products as well as for services. Cordell (1992) found an interaction effect between product risk and COO, indicating that there are no differences concerning evaluation of product quality between two products associated with different risk levels if the products were made in an industrialized country. In the case of a least developed country (LDC), quality differences were significant, indicating that manufacturers of high-risk products must be cautious when shifting production to a LDC. Thus, despite
a different research question, Cordell’s study confirms the interaction effect found in this paper, i.e. the COO effect influences product evaluation only in the case of high-risk products or services.

Managerial implications
The results of this study provide insights for companies regarding ways to gain initial trust when entering a new market. At first, management should not only evaluate COO image in the foreign market, but should also evaluate the company’s current corporate reputation and the risk perceived by potential consumers. Analyzing these data is an essential condition for a successful internationalization of services.

Second, the study indicates ways to effectively build initial trust in an international service setting. Whereas cues of a company’s corporate reputation affect initial trust positively in all examined cases, a positive COO (i.e. Germany in Poland in this study) only increases initial trust when perceived risk is high. Managers should take these results into consideration when deciding whether to actively communicate or to disguise the COO. As reported by Balabanis and Diamantopoulos (2004), the influence of COO effects varies over industry segments. With the present paper, we show that the practical relevance of these effects on variables that play an important role in the purchase decision (here: initial trust) varies depending on the risk that consumers connect with the specific industry. Existing literature states that information cues become more important in a condition of high risk (e.g. Mitra et al., 1999). When entering a market, the company’s brand cannot serve as an information cue to reduce risk because – by definition – it is not yet established in the minds of the consumers. Therefore, the relevance of COO cues on initial trust assessment is likely to be high at the point of market entry, and can be expected to diminish over time.

Third, the results can be meaningful for a company’s market entry mode decision. A company that plans to export high-risk services from a country with a positive COO image to a transition economy should actively communicate its COO. From a marketing perspective, therefore, it is reasonable to choose a market entry mode that secures independence from potential local partners in terms of communication policy. However, collaborative forms of market entry (e.g. joint ventures) are often used, especially in transition economies. In such cases local partners should be convinced of the positive effects that the communication of COO can have.

Limitations and further research
As with all empirical studies, this study has limitations. The key limitation here is the design as a laboratory experiment. While the design offers the advantage of a high internal validity, external validity is limited because only students were used as subjects. Their use in experiments is debatable (Peterson, 2001), but not unusual (Kalapurakal et al., 1991). To extend an examination of the results, the experiments can be replicated with other homogenous samples. Moreover, replications with different countries and in different service industries are needed in order to confirm our findings. In future research, additional covariates such as patriotism and animosity could deepen the understanding about possible reactance effects toward services offered by a foreign company. Similarly, individual personality traits that are related to risk could be integrated into future studies (for an overview, see Conchar et al., 2004). Further research should also focus on other instruments for gaining consumer trust (e.g.
warranties), especially in the case of a negative COO image. Empirical studies found that employees as boundary-spanners can reduce perceived risk and, therefore, are essential for building trust (Casielles et al., 2005). Thus, future studies on COO should focus on the role of employees in building initial trust in order to broaden our understanding of initial trust as a key driver of success in the context of services internationalization.

References


Sztopka, P. (1999), Trust, Cambridge, MA.


Wetzels, M., Birgelen, M. and Ruyter, K. (1996), “Ain’t it much, if it ain’t Dutch? An application of the consumer ethnocentrism concept to international services in The Netherlands”,

IMR 25,4

420
Further reading


**Corresponding author**
Manuel Michaelis can be contacted at: manuel.michaelis@wiwi.uni-muenster.de