

REPUTATIONS IN FLUX: EXAMINING HOW A FIRM'S MULTIPLE REPUTATIONS  
INFLUENCE REACTIONS TO A NEGATIVE VIOLATION

by

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(Under the Direction of Michael Pfarrer)

ABSTRACT

I examine how a firm's multiple reputations influence managers' and stakeholders' reactions to a negative violation. Specifically, I investigate how a firm's financial and social reputations, as well as its overall general reputation, serve potentially conflicting roles for two types of organizational violations: financial restatements and environmental malfeasance. In the context of financial restatements, I find that a firm's social reputation encourages managers to provide a more accommodative response to the violation, while its general reputation discourages managers from being accommodative. I also find that being accommodative positively influences each of a firm's three reputations as outcomes in a financial violation context. In the context of environmental malfeasance, I find that a firm's social and financial reputations encourage managers to provide an accommodative response, while its general reputation discourages managers from being accommodative. I also find that being accommodative negatively influences a firm's social and general reputations as outcomes in the social violation context. Ultimately, I show that reputation repair is a complex and dynamic process and that a firm's multiple reputations often act as conflicting rather than complementary

assets. In doing so, I advance organizational research in several related areas, including reputation management, stakeholder management, and social evaluations.

**INDEX WORDS:** Firm Reputation, Reputation Repair, Negative Violation

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## CHAPTER 1

### INTRODUCTION

Academic interest in firm reputation is increasing (Fombrun, 2012), and many studies provide evidence that a firm's reputation is a valuable resource. For example, a favorable firm reputation is positively related to increased price premiums (Benjamin & Podolny, 1999; Deephouse, 2000; Rindova, Williamson, Petkova, & Sever, 2005), profitability (Roberts & Dowling, 2002), a firm's ability to attract quality employees (Turban & Cable, 2003), and strategic flexibility (Deephouse & Carter, 2005; Pfarrer, Pollock, & Rindova, 2010). Overall, scholars agree that a favorable firm reputation can be a source of competitive advantage.

As a valuable resource, how a firm attempts to protect and repair its reputation in response to a negative violation—or when a firm's actions violate stakeholders' expectations of appropriate behavior—can be critical to its success. Examples of violations include financial accounting restatements (e.g. Pfarrer, Smith, Bartol, Khanin, & Zhang, 2008), downsizing and employee layoff announcements (e.g., Love & Kraatz, 2009), and accusations of environmental malfeasance (e.g., Zyglidopoulos, 2001). A number of negative consequences can result from a violation, including direct damage to a firm's reputation (Love & Kraatz, 2009; Rhee & Haunschild, 2006), loss of stakeholder trust and goodwill (Karpoff, Lee, & Martin, 2008; Zyglidopoulos, 2001), negative media coverage (Zavyalova, Pfarrer, Reger, & Shapiro, 2012), and executive turnover (Arthaud-Day, Certo, Dalton, & Dalton, 2006). Given these consequences, organizational research has become increasingly interested in understanding the

dynamics of the reputation repair process following a violation (cf. Lamin & Zaheer, 2012; Love & Kraatz, 2009; Rhee & Haunschild, 2006; Rhee & Valdez, 2009; Zavyalova et al., 2012).

However, while academic interest in the reputation repair process is growing, research in this domain has largely failed to incorporate a major advancement in reputation scholarship: that a firm may have multiple and perhaps conflicting reputations (cf. Barnett & Pollock, 2012; Lange, Lee & Dai, 2011). For instance, a firm may have a reputation for product quality among consumers, a reputation for financial performance among investors, a reputation for exceptional corporate social responsibility among socially-conscious advocates, or, more simply, a reputation for being “more or less good and attractive” among these key stakeholders and the general public (Deephouse, 2000; Lange et al., 2011: 159; Love & Kraatz, 2009). While researchers have begun to theorize about the potential interplay between a firm’s multiple reputations (e.g., Lange et al., 2011; Barnett, Jermier, & Lafferty, 2006; Rindova & Martins, 2012; Rindova et al., 2005), less is known about how a firm’s reputational structure influences the repair process following a violation (cf. Love & Kraatz, 2009; Rhee & Valdez, 2009).

For example, In 2009 Exxon Mobil was praised by *Corporate Responsibility Magazine* (CR) as one of *America’s Best Corporate Citizens*. In the same year, Exxon was also at the top of its industry in *Fortune’s* annual survey of *America’s Most Admired Companies*. These rankings can be understood to reflect Exxon’s high social and financial reputations with its respective stakeholder groups. By the end of the year, however, Exxon was ordered to pay over \$100 million in damages related to the contamination of New York City’s groundwater, despite its vehement denial of responsibility (Navarro, 2009). Exxon’s subsequent movement in the two reputation rankings suggests that its social and financial reputations may have been differentially influenced by its response to the violation. Investors and financial audiences may have

appreciated Exxon's defensive posturing, as evidenced by Exxon's continued top position in *Fortune's* ranking. However, social audiences seemed to have reacted negatively to the defensiveness, as evidenced by Exxon's being dropped from *CR's* best corporate citizens list. Thus, it seems likely that Exxon's response to the violation served to protect one reputation while simultaneously damaging another.

In this study, I examine how a firm's multiple reputations influence managers' and stakeholders' reactions to a negative organizational violation. Drawing from research in crisis management, social psychology, and social cognition, I first examine how a firm's multiple reputations differentially influence its choice of response strategy—the set of coordinated communication and actions used to repair reputation following a violation (cf. Barton, 2001; Coombs, 2007). Prior research has argued for and found that firm reputation is path dependent (Mishina, Block, & Mannor, 2012) such that a firm's endowed reputation can be used to predict future behavior that is consistent with the reputation (Pfarrer et al., 2010). For example, financial reputation is built, in part, by delivering consistent financial returns. As such, a firm's existing financial reputation positively predicts providing consistent financial returns in the future (Pfarrer et al., 2010). I draw from this work to theorize that a firm's prior reputations can be informative predictors of the actions taken in the wake of a negative violation—that is, the strategic choices a firm makes to repair its reputations will be framed by its current reputations. It is also likely that actions used to build one reputation may be harmful to another reputation. For example, building a strong financial reputation may require actions that hurt a firm's social reputation, such as employee downsizing and layoffs. Thus, I also theorize that a firm's multiple reputations encourage potentially conflicting response strategies in the wake of a violation. I

specifically consider three types of firm reputation—financial reputation, social reputation, and a firm’s general or overall reputation.

Second, I examine how a firm’s response strategy affects its different reputations as outcomes of the repair process. A negative violation requires stakeholders to engage in sensemaking as they attempt to understand a firm’s deviation from their expectations (Burgoon & Le Poire, 1993; Coombs, 2007). In doing so, stakeholders will draw on an interpretive frame that is consistent with the nature of the reputation dimension being evaluated to understand the violation. Whether these judgments are specific to a firm attribute, such as financial or social performance, or are general perceptions of the overall firm, they should influence how stakeholders make sense of the violation. As suggested in the Exxon example above, I also argue that there are instances in which a response strategy used to protect one reputation may serve to damage another.

Finally, I also consider how the nature of the violation—and how it is related to the nature of a particular reputation—affects how firms and stakeholders respond. For example, a financial violation may affect a firm’s financial reputation differently than a social violation. As such, I argue that the violation context plays an important part in understanding the dynamics of reputation repair. I specifically examine the repair process in context of two violations: firm financial restatements, and accusations of environmental malfeasance in the form of Environmental Protection Agency (EPA) violations.

This study sheds theoretical and empirical light on many of the questions associated with the complex nature of a firm’s reputational structure and the process of reputation repair. A firm’s violation of stakeholders’ expectations has a direct impact on stakeholders’ perceptions of the firm, and therefore on the firm’s multiple reputations and future performance. Thus, the

reputation repair process is a natural context to examine the potentially disparate effects of a firm's multiple reputations on stakeholders' perceptions.

My study is structured as follows. Chapter 2 provides a review of the relevant literature. I begin by reviewing the concept of firm reputation, including a review of the dominant theoretical frames for understanding reputation as well as a review of research investigating the multifaceted nature of reputation. I then review the literature on expectancy violations and reputation repair, focusing specifically on research that investigates the influence of response strategies. I then present my specific hypotheses in Chapter 3, drawing from the research and theory outlined in the literature review. I provide a detailed description of the methodologies used to test my hypotheses in Chapter 4, and the results of my analyses are presented in Chapter 5. I end with a discussion of the broader implications of my theory and findings in Chapter 6.



## CHAPTER 2

### LITERATURE REVIEW & THEORY DEVELOPMENT

“When future scholars look back at this period, we believe they will recognize it as the critical formative phase of organizational reputation research—a phase marked by uncertainty about definitions, dimensionality, and operationalizations, and by attempts to bring theoretical coherence and rigor to the subject area.”  
Lange et al., (2011: 154)

Research evidence provides insight that firm reputation influences a number of organizational outcomes and is worthy of academic inquiry (see Lange et al., 2011 for a review). However, as noted in the quotation above, such inquiry remains in a state of theoretical contention and debate. To understand this debate, we must first understand what reputation is and where it comes from. Below I provide a review of the dominant theoretical perspectives used to understand reputation. Given these perspectives, I then provide a review of the literature specific to the multifaceted nature of firm reputation. I end with a synthesis of this literature and propose my own perspective of reputation as a multifaceted construct.

#### **Theoretical Perspectives of Firm Reputation**

*Social constructionist perspective.* Perhaps the most widely adopted theoretical frame for understanding reputation among organizational scholars is the social constructionist perspective (e.g., Fombrun 1996; Lange et al., 2011; Love & Kraatz, 2009; Pfarrer et al., 2010; Rao, 1994; Rhee & Valdez, 2009; Rindova & Martins, 2012; Walker, 2010). Largely building from the seminal logic of Berger and Luckmann (1967), this perspective recognizes reputation as a perceptual evaluation of a firm that is “constructed” via social interactions over time. As stakeholders interact with the firm, with other firms, and with each other they develop mental

models about what they perceive as being normal or acceptable organizational behavior (Burgoon & Le Poire, 1993). From these interactions stakeholders also form specific perceptions and expectations about a given focal firm. As these expectations are met over time, the firm and stakeholder can maintain a positive relationship and reputation is developed. This perspective “emphasizes the diversity of perceptions and cognitions that amalgamate into the construction of reputation” (Rindova & Martins, 2012: 20). Thus, the social constructionist perspective describes the process of building and maintaining a set of positive expectations—summarized as reputation—via repeated interactions and observations over time.

According to this perspective, perceptions of firm reputation are built using multiple sources of information (Deephouse, 2000; Rindova & Martins, 2012). For example, reputation can be developed from a stakeholder’s personal experiences with the firm, from firm-initiated outreach and communications, and from intermediaries, such as the media (Fombrun, 2012). The collective properties of reputation emerge via a process of social construction from these and other information sources. Stakeholders also make multiple reputation judgments, ranging from the specific—such as a firm’s ability to deliver innovative products or consistent financial returns—to the general—such as perceptions of a firm being either “good” or “bad.” Thus, the social constructionist perspective allows for reputation to be multifaceted, as both a generally held construct that can span stakeholder groups, and as specific judgments along dimensions that may be idiosyncratic to a certain stakeholder. Finally, the social constructionist perspective also conceptualizes firm reputation as a dynamic process, “reconstituted and reconstructed as new information comes to light for observers” (Lange et al., 2011: 178).

Researchers invoking sociocognitive perspectives of reputation, including those drawing from expectancy violations theory (Burgoon & Le Poire, 1993; Rhee & Haunschild, 2006),

general sociological perspectives (Pfarrer et al., 2010; Rindova et al., 2005), and “micro” foundational theories (Mishina et al., 2012), also utilize a social construction perspective. For example, Mishina et al. (2012) utilized a sociocognitive perspective to explain the path dependent process of reputation development and formation. In their words, reputation is “used as a cognitive shorthand by stakeholder groups to make inferences about organizations when more specific information is either unavailable or too costly to obtain” (Mishina et al., 2012: 460). Consistent with the social constructionist approach, reputation serves as a cognitive tool for framing and sensemaking used by those who interact with the corporation (Weick, 1979). This sensemaking process is simultaneously individual and collective. That is, it takes place within and between relevant observers in their social environment.

In addition to this social constructionist perspective, researchers in reputation also draw from institutional theory and signaling theory (Rindova & Martins, 2012). In fact, many of the arguments for the existence of multiple reputations posit that each of a firm’s reputations can be understood according to one of these different theoretical frames (Lange et al., 2011; Rindova & Martins, 2012; Walker, 2010). However, I argue that a social constructionist view is compatible with and even integrates many of the conclusions derived from these other perspectives. The social constructionist perspective describes the process by which stakeholders use information to develop expectations—and thus reputation—about a focal firm. Below I will argue that the signaling and institutional views each provide logic concerning the sources of reputation information used in this social construction process.

***Signaling perspective.*** Largely focusing on financial performance and quality signals, this perspective draws from signaling theory (e.g., Milgrom & Roberts, 1982; Spence, 1974) to emphasize the value of reputation as a tool to reduce information asymmetries that may constrain

market-based interactions. From this perspective, reputation is defined as “a firm-specific evaluation used by organizational audiences as a signal of quality and likely behavior when more specific information is unavailable or too costly” (Devers, Dewett, Mishina, & Belsito, 2009: 156). Reputations are useful because they provide information about “otherwise unobservable firm attributes” (Rindova & Martins, 2012: 19). Revealing similarities to the social construction perspective detailed above, Fombrun and Shanley (1990: 235) used the signaling perspective to emphasize reputation as a signal of a firm’s ability to meet the “expectations of multiple stakeholders.” Others have highlighted the game-theoretic nature of reputation as a signal, emphasizing how the reputation is an assessment of past behaviors used to predict future interactions (Milgrom & Roberts, 1982; Rindova & Martins, 2012). That is, observers use a firm’s prior actions as signals to infer motivations, incentives, and capabilities. These inferences are captured in reputation judgments. As a firm provides consistent signals over time it can build reputation. In contrast, inconsistent signals erode reputation as perceivers are no longer able to accurately or confidently predict behavior (Mahon, 2002).

Signals are important pieces of information used in the social construction process to form reputation. Importantly, while generally focusing on economic signals—such as delivering quality products or above average returns—the signaling perspective does emphasize that multiple signals are sent by a firm and that multiple audiences can interpret these signals in different ways. However, while recognizing the value of signals as important sources of information, the signaling perspective largely ignores how those signals are cognitively interpreted and socially integrated across multiple audiences. Thus, the social constructionist perspective can be viewed as a more complete way of understanding reputation by accounting for multiple signals and their interaction and development over time.

***Institutional perspective.*** Institutional theory is often used to support organizational legitimacy as a social evaluation (Suchman, 1995), but can also be useful for understanding firm reputation. From an institutional perspective, reputation is characterized as “the relative position of a firm in explicit rankings created by powerful institutional intermediaries” (Rao, 1994; Rindova & Martins, 2012: 22). Institutions serve as important social entities to codify tacit beliefs and perceptions in order to formally, and validly, indicate reputation (Rindova & Martins, 2012). Different institutions, such as the media, government, and other third-party arbiters process the signals created by firms into salient indicators that can be used by observers to infer reputation. Researchers using different social rankings in empirical tests of reputation—such as *Fortune’s Most Admired* list—are at least implicitly invoking an institutional perspective to justify their measure of reputation.

Like the signaling perspective above, I argue that this institutional perspective compliments the social construction perspective. Different institutional certificates, rankings, and endorsements come to symbolize reputation in the minds of audiences. Like the signals sent via consistent or inconsistent firm behavior, institutional signals can be thought of as important sources of information for sensemaking. For example, Rao (1994) examined the relationship between reputation and institutional theory in his study on automobile certifications. He argued that institutional certification contests represent mechanisms of social validity resulting in reputation judgments. Thus, like with economic or other signals, institutional endorsements can be understood as input information used by social evaluators to understand reputation, moving the judgment from a subjective interpretation into something more concrete with “social facticity” (Rao, 1994: 31). As Rindova and Martins (2012: 22) said, “Institutional intermediaries are integral players in a process of social construction of reputations because they specialize in

the generation and presentation of information about firms to large stakeholder audiences.”

Graffin & Ward (2010) also noted that in addition to reducing uncertainty related to a firm’s ability to perform or deliver value—which they dub technical uncertainty—certifications also give observers a means for the social comparison of performance—which they dub performance standard uncertainty. That is, certifications help observers develop a standard to make comparison judgments—a way to compare entities in situations where performance standards are fuzzy and ambiguous. Thus, in addition to providing inputs for social construction, institutional certifications can also enable social construction by providing a standard used for sensemaking.

*A multi-theoretic view of reputation.* In summary, like a number researchers before me (e.g., Fombrun, 2012; Rindova, Petkova, & Kotha, 2007; Rindova & Martins, 2012; Walker, 2010), I adopt the view that reputation is created via a subjective social construction process. At the root of reputation is the idea that stakeholders make evaluative judgments of a firm using information available in the surrounding environment. Reputation information can take the form of an economic signal, institutional endorsement, or something different such as secondhand information from key infomediaries. Regardless of the source, all of this information is used by stakeholders to cognitively construct a reputation within a social environment. The reputation judgments that result from this process are used by stakeholders as they make behavioral decisions to interact with a firm. Reputation judgments change and evolve over time as new information becomes available, making the social construction of reputation a dynamic and iterative process.

Having reviewed the three dominant theoretical perspectives of reputation, I next review literature concerning the multifaceted nature of reputation, which often draws from one or more of the theoretical perspectives outlined above.

## **Firm Reputation as a Multifaceted Construct**

A number of recent articles have attempted to clarify the multifaceted nature of firm reputation (e.g., Lange et al., 2011; Walker, 2010). Below, I provide a brief review of these and other influential works. I do not intend to provide a complete review of the literature below and instead only present details on those studies most relevant to the current manuscript. After the literature review, I also provide a synthesis of the various perspectives. Appendix A provides additional details regarding the manuscripts reviewed below.<sup>1</sup>

Rindova and colleagues (2005) were perhaps the first to explicitly define and empirically examine reputation as a multifaceted construct. They detailed two components of reputation: *perceived quality*, which is based in economic signaling theory and captures stakeholders' specific evaluations of an organization along a unique judgment of quality, and *prominence*, which is based in institutional theory and focuses on the degree to which an organization receives large-scale collective recognition (Rindova et al., 2005). The primary antecedents of perceived quality are strategic choices related to the quality of inputs and assets, while the primary antecedents of prominence are media rankings, third-party certifications, and prominent affiliations. According to their conceptualization, perceptions of prominence are relatively stable across stakeholder groups, while perceptions of quality may vary greatly depending on the organizational characteristic being judged. Using a sample of business school rankings and recruiter ratings, Rindova and colleagues (2005) largely found support for the antecedents of each dimension, but found that only prominence directly influenced outcomes in the form of

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<sup>1</sup> Much of the research reviewed also highlights reputation as a “multidimensional” construct. Many authors use the term multidimensional to refer to the existence of multiple firm reputations, while others focus more on the underlying sociocognitive or theoretical properties that constitute reputation as a construct. The literature review here primarily focuses on those works that address the existence of multiple reputations—what I term the multifaceted nature of firm reputation. However, certain influential papers addressing the sociocognitive underpinnings are also reviewed when relevant for understanding the nature of multiple reputations.

price premiums for graduate starting salaries. They also found that perceived quality positively influenced prominence, suggesting that as an organization satisfies individual stakeholders' idiosyncratic needs, positive collective judgments can increase and influence important organizational outcomes. It is possible that perceived quality had an indirect effect on price premiums through prominence; however, the mediating effect was not formally tested.

Rindova later updated her conceptualization of reputation by further subdividing the prominence component to include *accumulation of attention*—which captures the amount of visibility or attention given to the firm—and *breadth of appeal*—which captures the evaluative aspect of collective perceptions in terms of generalized favorability (Rindova & Martins, 2012). She also added a fourth component—*codification*—built from an institutional theory perspective of reputation and represented by certifications, rankings and awards given to the firm (Rao, 1994). In this updated conceptualization, Rindova and Martins (2012: 25) integrated the three dominant theoretical perspectives—signaling, social construction, and institutional—to formally propose four components of reputation “each of which captures the defining notions of reputation espoused by each of the three [theoretical] perspectives.”

Rindova et al.'s (2005) original model of reputation was later challenged by Boyd, Bergh and Ketchen (2010) who utilized the resource-based perspective to argue that reputation and prominence represent two distinct constructs—as opposed to two components of the same construct—and that reputation precedes prominence in order of causality. Boyd and colleagues (2010) treated reputation as a latent construct, using Rindova et al.'s (2005) antecedent measures as reflective indicators of latent reputation. In their model, Boyd et al. (2010) emphasized the role of prominence as a mediator between the effect of reputation on performance and other outcomes. They defined prominence as “the degree to which an organization is visible and well



known”, while they distinguished reputation as “an assessment of being good, bad, or somewhere in between” (593). Thus, prominence provides a key explanation for *how* reputation influences performance. They found support for their arguments. However, like Rindova et al. (2005), they did not statistically test for mediation. Additionally, Rindova and colleagues (2010) responded by suggesting that the Boyd et al. model was misspecified as a latent construct because antecedents of reputation were treated as reflective indicators.

Fombrun and his colleagues (Fombrun, 1996; Fombrun, 2012; Ponzi, Fombrun, & Gardberg, 2011) have also raised concerns regarding the confounding of reputation antecedents with indicators, criticizing a number of reputation definitions for including an overall judgment of the firm with a set of financial, social and environmental antecedents. Indeed, Fombrun (2012) even criticized his own seminal definition of reputation (Fombrun, 1996) as being too limiting in this respect. He instead suggested that reputation must be understood in context; a reputation is *according to* a specific stakeholder group and *compared against* relevant others (Fombrun, 2012). Within each specific contextual judgment, Fombrun (2012) stressed the importance of distinguishing between overall, collective judgments versus idiosyncratic perceptions of value. He also argued that the multiple dimensions can be aggregated: “corporate reputation can be developed for the broad ecology that surrounds a company based on an aggregation across relevant stakeholder segments in an industry, a country, or across countries” (101). With colleagues (Ponzi et al., 2011), Fombrun has developed the RepTrak™ Pulse measure of firm reputation to capture an individual’s beliefs about a company and disentangle the drivers of reputation from the construct itself. The RepTrak™ Pulse measure of reputation is a latent construct consisting of four survey-based indicators that capture broad emotional appeal and an overall assessment of reputation.

Focusing his review on three fundamental gaps in the literature (definitional consensus, methods and measures, and theoretical development), Walker (2010: 367) constructed his definition of reputation around the core relevant question “what are we [the firm] seen to be?” Utilizing a social constructionist frame, Walker highlighted the idea that because reputation is a subjective perception that is *objectively* held (citing Scott & Lane, 2000), we must conclude that reputation has a reality independent of individual observers and must be understood at an aggregate or collective level. However, Walker also highlighted several problems with viewing reputation as an aggregate construct. Reputations are often conceptualized as “for what and according to whom” (Walker, 2010: 369). Thus, a general additive construct may not be appropriate. Instead, Walker stressed that we should consider reputation as additive on a *per issue* basis, such as reputation for financial returns or social responsibility. Because only one reputation may exist per issue, Walker suggested that any firm will have multiple reputations. Obviously this creates measurement and operationalization issues as “researchers cannot measure the aggregate perception of all stakeholders in a single paper” for every issue (Walker, 2010: 373). As Walker (2010: 375) noted, “Decomposing corporate reputation limits our generalizability but increases the validity of our research.”

Lange, Lee, and Dai (2011: 154) highlighted the simple yet complex nature of reputation, recognizing that at its base, reputation is “the simple idea...that over time an organization can become well known, can accrue a generalized understanding in the minds of observers as to what it is known for, and can be judged favorably or unfavorably by its observers.” In their review of reputation, they categorized the multiple definitions of reputation into three broad themes: *being known*, *being known for something*, and *generalized favorability*. They argued that the definitional pluralism is a result of an underlying theoretical pluralism and advocated these three

themes as separate, largely orthogonal components of reputation that have unique relationships with each other and with outcomes. Citing Cable and Graham (2000) and Clarkson (1995), Lange et al. (2011) proposed that at one end of the debate is a perception that reputation is very localized and idiosyncratic to different groups based on particular organizational attributes. At the opposite end of the scale are views that treat reputation as a generalized perceptual representation of the aggregated organizational whole (Fombrum, 1996). Within their own dimensions, Lange et al. (2011) suggested that the *being known* and *being known for something* dimensions will likely be very sensitive to the social group being sampled, while the *generalized favorability* dimension will be less sensitive to group sampling. Ultimately, they suggested that “If organizational reputation is understood as a shared perceptual representation, then there remains disagreement about how we should conceive of the grouping of perceivers among which the representation is shared” (Lange et al., 2011: 164).

Finally, Mishina, Block, and Mannor (2012: 459) took a different perspective on the nature of reputation and focused on the “social judgments through which stakeholders translate information about an organization into a particular reputation.” Building from research in social psychology, they proposed two broad reputation judgments centered around the *character* and *competence* of the focal firm. Competence judgments focus on what an organization can do (i.e., its abilities and resources), while character judgments focus on what an organization would likely do (i.e., its goals, motivations, and intentions) (Mishina et al., 2012). Using this cognitive perspective of reputation, Mishina et al. (2012) proposed a model of reputation formation and argued that different cues—i.e., signals or sources of reputational information—will be interpreted differently depending on how the cue is framed, either from a character or competence perspective. Within their model, Mishina et al. (2012) also recognized the path

dependent nature of reputation, emphasizing that stakeholders are influenced by prior reputational judgments as they frame and interpret new information. Below I will argue that the path dependent nature of reputation is particularly important as firms decide how to respond to a negative event.

Given this review of the multifaceted nature of firm reputation, I next attempt to synthesize this diverse literature into a new perspective of reputation.

### **A New Perspective of Firm Reputation**

The review above suggests that scholars are largely in agreement that firm reputation is a multifaceted construct and that multiple reputations exist. However, the question of how to conceive these multiple reputations remains in debate. Based on my review of this literature, I propose that there are two ways to conceptualize the nature of a firm's reputation. First, reputation can be viewed as a *specific* judgment based on stakeholders' idiosyncratic expectations and perceptions of the firm. According to this perspective, reputation is a distribution of evaluations about the firm made by various stakeholder groups based on the behaviors that are salient to them (cf. Bromley, 2001; Love & Kraatz, 2009; Doh, Howton, Howton, Siegel, 2010). As such, a firm can theoretically have an infinite number of reputations, as each stakeholder develops a unique judgment for any number of firm-specific characteristics, such as employees' perceptions of a firm's reputation for fair treatment and investors' perceptions of a firm's reputation for value creation. In addition, a firm can have multiple specific reputations with any given stakeholder as the stakeholder assesses the firm across numerous attributes. That is, in addition to an employee judging a firm based on a reputation for fair treatment, the same employee can also hold a reputation perception for financial value creation, a reputation perception for social responsibility, etc.

Second, reputation can be viewed as a *general* assessment of a firm's overall favorability. While a firm can have multiple specific reputations with any given stakeholder, it can have only one general reputation. According to this perspective, reputation is a global impression of a firm generally shared across stakeholder groups and loosely based on the aggregation of a firm's total behaviors (cf. Lange et al., 2011; Fombrun, 1996; Rindova & Martins, 2012). Such perceptions of a firm's general favorability can be understood as a form of overall reputation in which reputation is treated as a general judgment towards the firm. While this general reputation is unique to a stakeholder, just like specific reputations, it is often conceptualized to be shared across stakeholder groups within the social environment (Fombrun, 2012; Lange et al., 2011; Rindova & Martins, 2012; Walker, 2010). Thus, its relationship with more specific assessments of reputation is unclear. I next consider the sociocognitive properties that differentiate specific and general reputation.

***The sociocognitive properties of specific and general reputation.*** There are three sociocognitive properties that differentiate the specific and general perspectives of firm reputation, as summarized in Table 1. First, the two perspectives differ in terms of how stakeholders cognitively process information to form a reputation judgment. Specific reputations are based on discrete cognitive assessments while a firm's general reputation is based on heuristic and intuitive assessments. Kahneman, Tversky, and colleagues (Kahneman, 2011; Kahneman & Frederick, 2002; Kahneman, Slovic, & Tversky, 1982; Tversky & Kahneman, 1974) referred to these different cognitive systems as System 1 (intuitive) and System 2 (reflective). For example, in making a specific financial reputation judgment, stakeholders engage in System 2 thinking to carefully consider a firm's financial performance and characteristics, compare these characteristics to similar firms, and ultimately make conclusions

about its ability to meet expectations. In contrast, general reputations result from a more automatic and effortless System 1 judgment. For example, Lange et al. (2011: 165) described general reputation as reflective of stakeholders’ overall “good-bad” judgments, largely based on social intuition (Haidt & Bjorklund, 2007). Similarly, Bargh (1997: 20) noted, “Everything that one encounters is preconsciously screened and classified as either good or bad, within a fraction of a second.” It is these kinds of intuitive judgments that form a firm’s general reputation.

**Table 1**  
**Comparing Specific and General Reputations**

	Specific Reputation	General Reputation
Definition	a specific judgment based on stakeholders’ idiosyncratic expectations and perceptions of the firm	a general assessment of a firm’s overall favorability among stakeholders
Cognitive system	System 2 (reflective)	System 1 (intuitive)
Information specificity	High information specificity	Low information specificity
Coupling with stakeholder group	Coupled with stakeholder group	Decoupled with stakeholder group

Second, because each reputation is reflective of a different kind of cognitive processing, the specificity of the information needed to make each judgment differs. The information signals used by stakeholders in the social construction of a general reputation are less nuanced compared to the more complex signals used to construct specific reputations. For example, stakeholders use detailed information signals found in financial statements to form judgments concerning a firm’s specific financial reputation. In contrast, a firm’s general reputation is built via more generic

good versus bad signals, often captured in the tenor of language surrounding a firm (cf. Deephouse, 2000). In this way, general reputation is not necessarily the result of specific actions, but instead is the result of the generalized “patterns in the history of a firm’s actions” collected and interpreted over time (Rindova & Martins, 2012: 22).

Finally, the specific and general perspectives differ on the coupling of the assessment with an evaluator group. The specific view of reputation is often characterized as “reputation *for* something” and according *to* someone (Lange et al., 2011; Rindova et al., 2005: 1035). Because of this, specific reputations tend to vary across stakeholder groups and can exist for any number of stakeholder impressions (Lange et al., 2011). In contrast, general reputation is not necessarily based on the meeting of stakeholders’ idiosyncratic “parochial ends” (Love & Kraatz, 2009: 317), but instead based on an overall evaluation of the firm as “more or less good and attractive” (Lange et al., 2011: 159). Because of this, a firm’s general reputation tends to “transcend stakeholder group boundaries,” and “becomes decoupled from specific actions” that may be related to the more idiosyncratic reputation assessments (Rindova & Martins, 2012: 22).

Given the differences highlighted above, a firm’s general reputation is regarded as related but independent from the other, more specific, reputations. Each type of reputation is formed using different kinds of information (i.e., has different antecedents) and invokes different interpretive frames as stakeholders attempt to make sense of an organization (i.e., has different consequences). For example, Love and Kraatz (2009) found that reputation judgments in relation to firm downsizing differed along specific reputations related to technical value and character, as well as along a broader reputation related to general norm conformity and favorability. Additionally, Rindova et al. (2005) found that a specific reputation for quality had different effects on organization outcomes when compared to a general assessment of favorability.

While a firm can have many specific reputations, I focus on two broad archetypes: *financial reputation*—based on a firm’s ability to consistently deliver financial value over time—and *social reputation*—based on a firm’s consistent demonstration of integrity in its interactions with stakeholders. Focusing on specific financial and social reputations is consistent with Mahon (2002: 420) who emphasized the importance of considering “market based reputation” within traditional economic markets, and “political/social based reputation” within the “marketplace for ideas” such as public opinion, political action, and within social contexts. It is also consistent with Lamin and Zaheer (2012), who focused on broad financial and social “thought worlds,” representing the perspectives of social (Main Street) versus financial (Wall Street) stakeholders, and Mishina et al., (2012) who focused on competence and character based reputation.

Given the importance of maintaining positive reputation judgments, whether made according to specific attributes or more generally, I next examine how a firm manages its reputations after violating stakeholders’ expectations. I highlight how a firm’s attempts at reputation repair can be viewed as efforts to influence the continued social construction of its reputation, and that response strategies are a critical component to this process. Using a social constructionist lens, I first review research on negative violations.

### **Negative Violations**

One way to understand the consequences of a negative violation is to frame such acts in terms of expectations (Burgoon & Le Poire, 1993; Elsbach, 2003). Expectations can be understood as probabilistic judgments concerning the anticipated behavior of a firm within a set of social rules and sanctions (Burgoon & Walther, 1990; Jones, 1990). As mentioned above, expectations are integral in the social construction process of reputation. A firm meets stakeholders’ expectations when it acts in congruence with the rules of the game and in a way



that is consistent with its prior behavior. Thus, expectations come from prior experiences with the firm, contextual variables such as culture and societal norms, and from judgments based on characteristics of the firm (Floyd, Ramirez, & Burgoon, 1999). An expectancy violation is experienced when a firm's actions are incongruent with what stakeholders anticipate—a recognized discrepancy between what one expects and what one experiences (Burgoon & Le Poire, 1993). Expectancy violations can be positive (e.g., better-than-expected returns, innovative products, exceptional employee benefits), or negative (e.g., financial restatements, product recalls, environmental malfeasance), and generate favorable or unfavorable perceptions based on the respective type of violation. I focus on negative expectancy violations and for brevity will refer to them simply as negative violations or violations.

Once a violation has occurred, stakeholders engage in a cognitive social construction process to reconcile the violation with their “normal” expectations of the firm (Fiske & Taylor, 1991; Planalp & Rivers, 1996). The reconciliation process can influence stakeholders to alter their perceptions of the firm in a negative manner (Elsbach, 2003). Consequently, modified stakeholder expectations about the firm can induce potentially detrimental outcomes such as withdrawal of stakeholder support and damage to social relationships and reputation (Devers et al., 2009; Love & Kraatz, 2009; Zavyalova et al., 2012).

Recognizing the threat that a violation presents to reputation, a number of researchers have investigated the reputation management and repair process, and many have focused on a firm's response strategy used to manage perceptions. I review this literature next.

### **Response Strategies for Reputation Repair**

In order to limit damage to reputation resulting from a violation, managers deploy response strategies. Response strategies are coordinated communication and actions used to

portray the firm in a positive light (cf. Barton, 2001; Coombs, 1995, 2007, 2011; Pfarrer, DeCelles, Smith, & Taylor, 2008; Rhee & Valdez, 2009; Zavyalova et al., 2012). For example, a firm may issue a press release to offer an explanation of the violation and may engage in efforts to coordinate resources to resolve the issue (Benoit, 1995; Coombs, 2007; Pfarrer et al., 2008a). Much can be gained in our understanding of reputation management during a violation by considering how firms respond. Deploying response strategies “is a goal-directed activity that involves a purpose,” to maintain a positive reputation (Erickson, Weber, Segovia, 2011: 207). In reference to the specific act of communication, Burgoon and Le Poire (1993: 71) stated, “actual communication has significant impact on interaction outcomes...[and] expectancy effects on outcomes are at least partially overcome by the intervening communicative exchange.” Research in a number of fields, including crisis management, perception management, and interpersonal trust has long-recognized the importance of communication and response strategies following a violation (Coombs, 2007; Elsbach, 2003; Kim, Ferrin, Cooper, & Dirks, 2004).

From a social construction perspective, response strategies are influential because they are a source of information used by stakeholders to make sense of the negative violation and modify their reputation judgments. As mentioned above, in order to rectify a violation, stakeholders seek explanatory information from firms and other sources (Pfarrer et al., 2008a; Planalp & Rivers, 1996). Firm communication via response strategies offers stakeholders information about the violations from the firm’s perspective. Any information that aids in reconciling the violation with stakeholders’ expectations can reduce the immediate negative effects of the violation, and can have a lasting impact on future expectations.

Mahon (2002: 434) highlighted the importance of framing in the reputation management process: “When we move into the marketplace of ideas, the framing of an issue or problem is

influential in shaping public opinion.” The framing of a negative event can have important consequences for how the violation is interpreted and ultimately used in the social construction of a reputation. Gamson, Croteau, Hoynes, & Sasson (1992: 384) wrote that the “frame plays the same role...that schema does in cognitive psychology – a central organizing principle that holds together and gives coherence and meaning to a diverse array of symbols.” Thus, the response strategy is important in terms of directing attention (Goffman, 1974; Weick, 1995). Response strategies attempt to “manage meaning” by providing a consistent message to generate positive collective evaluations of the firm (Coombs, 2010: 478; Massey, 2001). A conclusion among scholars is that a firm’s response has “profound implications” on social perceptions and evaluations (Coombs, 2007; Lamin & Zaheer, 2012: 47).

Organizational researchers highlight two general types of response strategies that range along a continuum of accommodativeness, with less accommodative responses often referred to as *defensive* strategies and more accommodative responses simply referred to as *accommodative* strategies (Benoit, 1995; Elsbach, 2003; Coombs, 2007; Marcus & Goodman, 1991). Less accommodative (more defensive) strategies attempt to *avoid* the damages associated with a violation by reducing a firm’s perceived responsibility (Coombs & Holladay, 2004; Elsbach, 2003; Pfarrer et al., 2008a; Tedeschi & Melburg, 1984). Examples include providing excuses (downplaying a firm’s responsibility), justifications (minimizing the negativity of the event), and deflection (shifting responsibility to other entities) (Elsbach, 2003; Tedeschi & Melburg, 1984; Suchman, 1995). In contrast, more accommodative strategies attempt to *repair* the damages associated with a violation by proactively accepting responsibility (Bottom, Gibson, Daniels, & Murnighan, 2002; Coombs & Holladay, 2004). Examples include provisions of apologies, expressions of regret, desire for forgiveness, and displays of mortification (Coombs, 2011; Kim

& Yang, 2009). Accommodative strategies also may include promising corrective actions and providing restitution to any potential victims (Bottom et al., 2002; Pfarrer et al., 2008a; Tedeschi & Melburg, 1984).

Much of the research investigating the effectiveness of response strategies has been conducted in the field of public relations and communication. Within this stream, research can be generally summarized with the following statement: scholars often theoretically emphasize the importance of providing a more accommodative strategy, but empirical results suggest that there are limitations to the effectiveness of being accommodative. For example, Elsbach (2012: 467; citing Coombs, 1999) described the theoretically ideal response in accommodative terms as: “actions and communications that provide clear, rational explanations of an organization’s actions, sensitivity to audience concerns, and a focus on visible changes the organization has instituted to prevent a similar crisis from occurring in the future.” Several authors find support for the positive influence of an accommodative strategy, but only under certain conditions (e.g., Bradford & Garrett, 1995; Coombs & Holladay, 2002; 2008; Dean, 2004; Kim & Yang, 2009). These conditions include the level of a firm’s perceived responsibility for the event (Coombs, 1995; 2007), the nature of a firm’s relationship with affected stakeholders (Dean, 2004; Kim & Yang, 2009), the moral or normative nature of the event (Bradford & Garrett, 1995), and the consistency of a firm’s message (Massey, 2001). Most of these studies were conducted using experimental or survey-based research designs.

Within the management and organizations literature there are fewer examples of empirical research investigating response strategies. Elsbach’s work in perception management provides some insight (1994; 2003; Elsbach & Sutton, 1992). In addition to providing a broad typology of organizational perception management strategies (Elsbach, 1994; 2003), Elsbach

studied the effectiveness of different “accounts” or verbal explanations aimed at building and maintaining legitimacy judgments (Elsbach, 1994). For example, in an inductive study of the cattle industry, Elsbach (1994) found that “acknowledging” strategies (similar in form to an accommodative strategy as defined above) were more effective at protecting legitimacy in response to a controversial event than denial strategies. Her logic suggested that acknowledgment strategies asserted control over the situation (Sutton & Callahan, 1987) and allowed the organization to move beyond attribution questions and into more positive impression management strategies (i.e., what is being done to address the issue). Importantly, however, Elsbach (1994: 73) acknowledged that the controversial issues she studied were only “moderately negative (i.e., no one died)” and that her conclusions were bounded by the type of negative event.

Within the context of toy recalls, Zavyalova et al. (2012) also found support for the beneficial influence of an accommodative strategy. Firms that employed a technical response (actions that have the potential to address the causes of the violation) in the wake of a recall led to more favorable media coverage than firms that deployed a ceremonial response (actions to deflect media and stakeholders’ attention away from the causes of the violation). However, these effects were only present when the focal firm was held responsible for the violation, as opposed to violations caused by other members in the industry.

Other scholars in management have a less favorable view of accommodative strategies. For example, Marcus and Goodman (1991) contrasted the interests of shareholders and the interests of victims in response to a violation. Often these interests are in opposition, and in making response strategy decisions, managers must often choose to serve one stakeholder over the other. Their findings highlighted that overly accommodative responses may be detrimental to

shareholders' interests—by opening the firm up to legal liability and increasing the chances of economic and social damage—but may be beneficial to victims of the negative event. While offering no prescriptive recommendations, Marcus and Goodman (1991) did stress the importance of acknowledging the limitations, both practical and theoretical, of being accommodative. Lamin and Zaheer (2012) came to similar conclusions in their study of response strategies and sweatshop accusations. Their findings showed that more accommodative responses did not significantly influence legitimacy perceptions for either the general public or for the investment community. They did, however, find significant differences for more defensive responses, showing that defensive responses are viewed favorably by the investment community but viewed negatively by the public. Overall, the findings and arguments of Marcus and Goodman (1991) and Lamin and Zaheer (2012) raise a number of important questions regarding the true effectiveness of an accommodative response strategy, especially when considering the multiple audiences and evaluations of a firm.

Finally, a number of management studies investigating response strategies have been conducted at the individual level of analysis, using either survey or experimental methods. For example, in a series of studies, Kim, Ferrin, Cooper, and Dirks (Ferrin, Kim, Cooper, & Dirks, 2007; Kim et al., 2004; Kim, Dirks, Cooper, & Ferrin, 2006) investigated the influence of response strategies on interpersonal trust perceptions. Their findings showed that an accommodative strategy is most effective for maintaining and repairing trust when responding to a negative event characterized as a competence violation, while a defensive strategy is most effective when responding to a character violation (Kim et al., 2004). Ferrin et al. (2007) also highlighted the importance of simply providing a response, showing that reticence (i.e., neither confirming nor denying that a problem exists) often results in suboptimal outcomes than when

providing any response. Also at the individual level, Bottom et al. (2002) revealed that defensive strategies can be more effective in relationships characterized by a long history, and that the act of providing substantive penance can enhance the effects of a response strategy.

Given the review above, one can conclude that response strategies matter when attempting to repair reputation in response to a violation. In the end, however, large scale empirical studies investigating response strategies at the organization level of analysis remain few (cf. Zavyalova et al., 2012). Additionally, a number of questions remain regarding the effectiveness of an accommodative strategy. Finally, while a number of researchers hint at the multifaceted nature of reputation and its influence in the reputation repair process (e.g., Dean, 2004; Kim & Yang, 2009; Lamin & Zaheer, 2012; Marcus & Goodman, 1991), empirical research has yet to robustly consider the interplay. This study is, in part, an attempt to address these gaps.

## CHAPTER 3

### HYPOTHESES

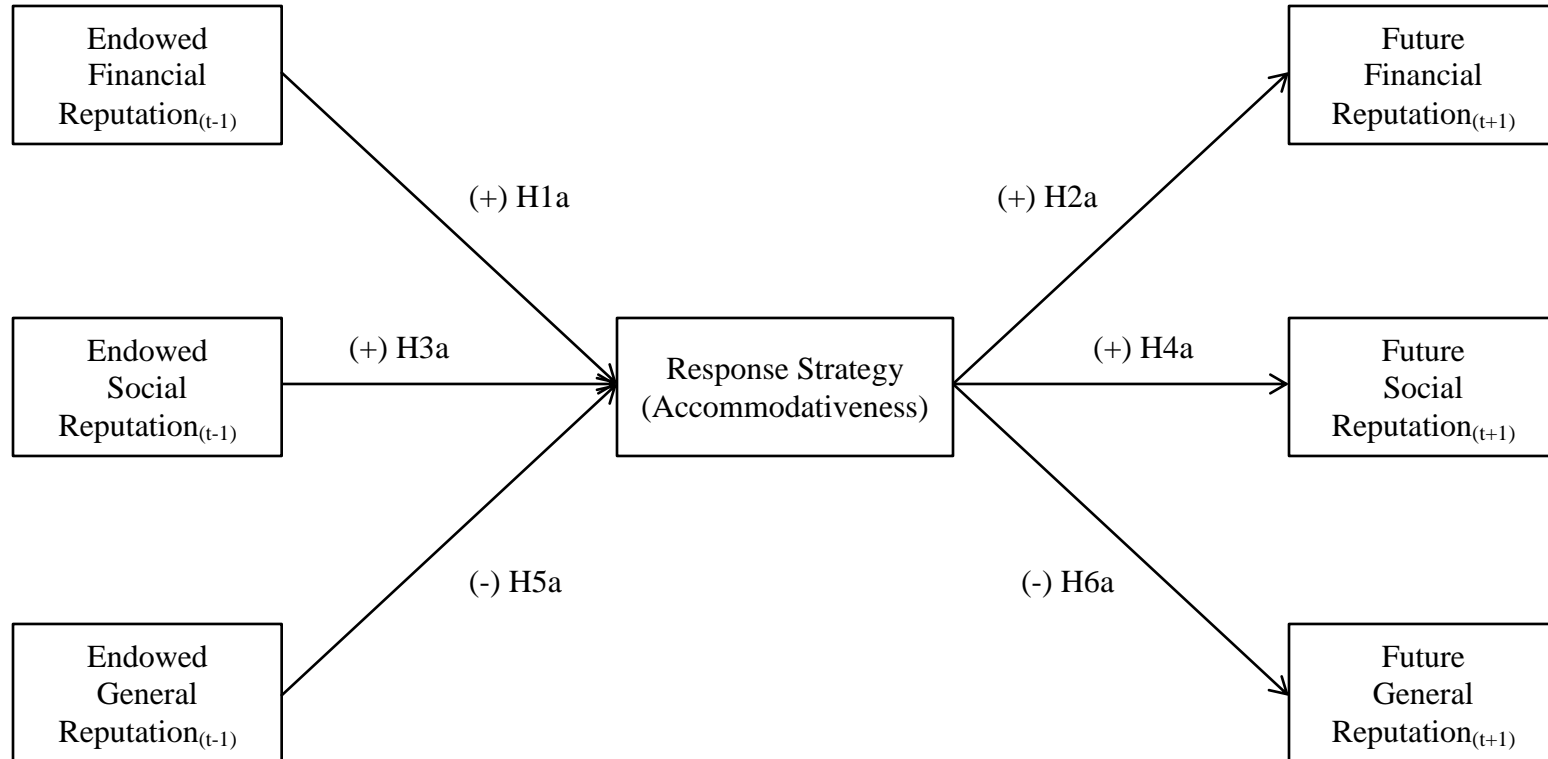
I structure my hypotheses around three types of reputation: financial reputation, social reputation, and general reputation. I consider two separate effects for each type of reputation. First, I consider how a firm's *endowed* reputations influence its response strategy in reaction to a violation. Second, I consider how a firm's response strategy subsequently influences its *future* reputations as outcomes of repair. Thus, if a violation occurs at time  $t$ , then endowed reputation represents a firm's reputation during a period  $t-1$ , and future reputation represents a firm's reputation during a period  $t+1$ . Additionally, in recognizing that response strategies exist on a continuum, I use the term *accommodativeness* when referencing the nature of a firm's response strategy in my hypotheses, with increasing accommodativeness indicating movement along the continuum from a less accommodative (defensive) strategy to a more accommodative strategy.

I also consider how the violation context influences the reputation repair process. I examine two types of violations: a financial violation—in the form of an accounting restatement—and a social violation—in the form of accusations of environmental malfeasance. Figures 1 and 2 provide a visual summary of my proposed theoretical models and hypotheses for financial and social violations respectively. Odd numbered hypotheses are concerned with endowed reputations as antecedents and even numbered hypotheses are concerned with future reputations as outcomes. All hypotheses ending with “a” are for the financial violation context, and all hypotheses ending with a “b” are for the social violation context.



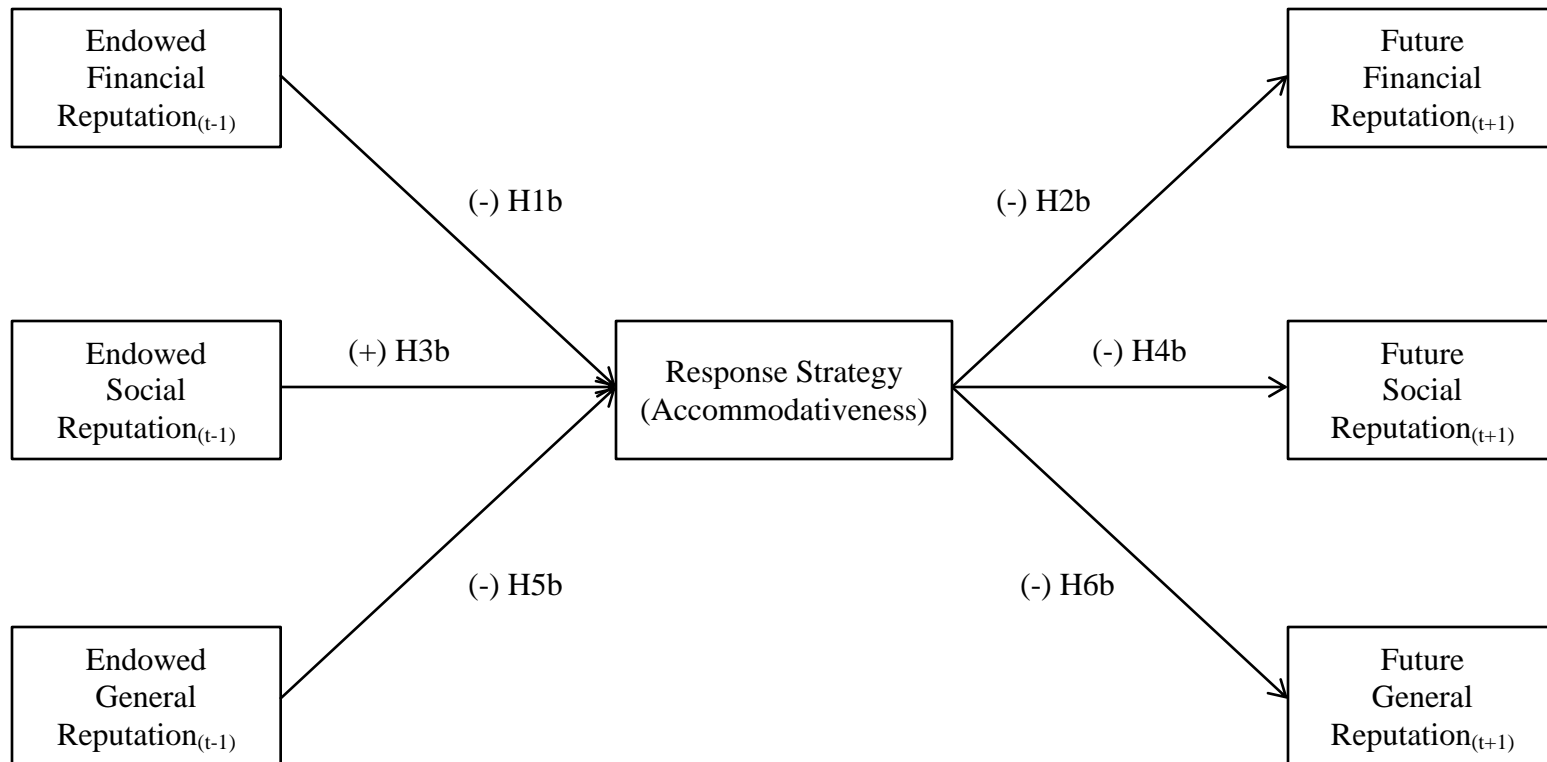
**Figure 1**

**Theoretical Model and Hypotheses: Financial Violation**



**Figure 2**

**Theoretical Model and Hypotheses: Social Violation**



## Financial Reputation

*Endowed financial reputation as an antecedent.* A firm's specific financial reputation is built via its *ability* to consistently deliver financial value over time. Financial value may be in terms of providing reliable accounting returns, predictable and positive stock market performance, or in the firm's ability to meet financial analysts' expectations.

Predictability is a central component of reputation; a reputation is an assessment of how a firm is expected to behave in the future given its behavior in the past (Fombrun, 1996). Pfarrer et al. (2010) theorized and found support for the idea that the values and behaviors involved in building a reputation will influence a firm's propensity to engage in similar behaviors in the future. Mishina et al. (2012) also argued that reputation is path dependent, such that a firm's future behavior will be guided by its current reputation. Thus, a firm's endowed reputation—as a reflection of the firm's values—should influence its behavior in response to a violation. A firm builds financial reputation by engaging in behaviors to produce positive and predictable financial value. In order to maintain this reputation, a firm with financial reputation will be incentivized “to exert additional effort to maintain predictability and reliability, as these attributes are central to maintaining high levels of reputation” (Pfarrer et al., 2010: 1134). Because a firm with financial reputation built its reputation by demonstrating ability and control over its financial environment, it will likely choose a strategy that continues to demonstrate these characteristics when attempting to repair its financial reputation in response to a violation.

Given the path-dependent nature of reputation, how a firm responds to a financial violation will depend on whether or not the violation threatens the ability-based perceptions inherent in financial reputation. When a firm commits a financial violation, such as a restatement, it signals to financially-oriented stakeholders that it may lack the ability to continue

delivering financial value and maintain control over its financial outcomes. Such signals threaten a firm's financial reputation (Lee, Peterson, & Tiedens, 2004; Salancik & Meindl, 1984; Sutton & Callahan, 1987). A more accommodative response typically involves a firm's acknowledgment that a violation has occurred, its specific role in the violation, and a discussion about the actions that will be taken to resolve the violation (Coombs, 2007). Given these characteristics, a more accommodative strategy in response to a financial violation provides diagnostic information to financially-oriented stakeholders that attempts to demonstrate control over the violation and generally reinforces the ability of the firm (e.g., Benoit, 1995; Bradford & Garrett, 1995; Coombs 2007; Lee et al., 2004; Marcus & Goodman, 1991; Pfarrer et al., 2008a). In contrast, while a defensive strategy may allow a firm to avoid attributions of responsibility for the financial violation, it may also provide additional evidence to financial audiences that the firm lacks control over its own financial fate (Lee et al., 2004). For example, a firm may respond defensively to an accounting restatement by blaming its external auditors. This may deflect attributions for the specific violation onto the external auditor, but it also may suggest that the firm is unable to accurately judge the competence of its service providers or maintain control over its own records. Financial stakeholders may then begin to doubt other decisions made by the firm and develop concerns about its financial future. Thus, in a financial violation, endowed financial reputation is likely to encourage a more accommodative response strategy as the firm attempts to reassert control over its financial environment.

In contrast to a financial violation, managers are not likely to perceive a social violation as related to the firm's financial ability (Lamin & Zaheer, 2012). Instead, managers using financial reputation as a basis for understanding a social violation will be primarily concerned with the firm's financial liability and bottom-line. Thus, managers will view their response to a

social violation through a “cost-benefit lens, where attempts to accommodate will be viewed as imposing additional costs” related to being held responsible for the violation (Lamin & Zaheer, 2012: 53). In contrast, a defensive strategy attempts to deflect responsibility for the violation onto third parties and often intentionally introduces uncertainty into the situation (e.g., Dean, 2004; Elsbach, 2003), thereby allowing a firm to potentially avoid being associated with the violation. Because of this, such a strategy is likely to be perceived as a “costless response” serving to protect financial performance in a social violation (Lamin & Zaheer, 2012: 53), while a more accommodative strategy is likely to be perceived as a costly response serving to increase legal liability and the potential financial penalties associated with the social violation.

To summarize, in a financial violation context, I predict that a firm’s endowed financial reputation will encourage accommodativeness as the firm attempts to reassert control over the financial environment. In a social violation context, I predict that a firm’s endowed financial reputation will discourage accommodativeness as the firm attempts shift or reduce its perceived responsibility in order to avoid legal and financial liabilities.

*H1a: For a financial violation, endowed financial reputation will be positively related to the accommodativeness of a firm’s response strategy.*

*H1b: For a social violation, endowed financial reputation will be negatively related to the accommodativeness of a firm’s response strategy.*

***Future financial reputation as an outcome.*** The social constructionist perspective argues that how stakeholders perceive and interpret a violation will be influenced by their prior reputation judgments of the focal firm (Coombs & Holladay, 2006; Mishina et al., 2012; Rhee & Valdez, 2009). As an objective “social fact” (Pfarrer et al., 2010: 1132), reputation serves as a “cognitive shorthand” used by stakeholders to “gauge the probable outcomes of interacting with

a particular organization” (Mishina et al., 2012: 460). This suggests that the different types of reputation will influence stakeholders’ framing of the violation—and thus their reactions—in different ways.

A demonstration of control via a more accommodative strategy should be positively received by stakeholders as they reevaluate a firm’s financial reputation in light of a financial violation. Prior research suggests that when a firm’s ability to produce valued outcomes is questioned, a successful response strategy should reduce the perceived lack of ability and reinforce to audiences that the organization controls its environment (Kim et al., 2004; Mishina et al., 2012). When stakeholders re-evaluate a firm’s ability, positive information is also given greater weight than negative (Mishina et al., 2012; Pfarrer et al., 2010; Skowronski & Carlston, 1987; Zavyalova et al., 2012). Thus, positive signals that reinforce the firm’s ability to control the financial environment—such as a more accommodative strategy—should be interpreted favorably as financially-oriented stakeholders engage in sensemaking surrounding the financial violation. A number of empirical studies provide support for this logic (Lee et al., 2004; Kim et al., 2004; Kim et al., 2006). For example, in a series of laboratory experiments Kim et al. (2004; 2006) found that, in the context of an ability-based violation, individuals exhibited more positive beliefs towards a violating party when that party responded with a more accommodative response. At the organization level, Lee et al. (2004) found that a firm’s accommodativeness in response to a negative ability-based event had a positive influence on future stock price.

In the context of a social violation, however, financially-oriented stakeholders making financial reputation assessments are likely to view increasing accommodativeness as value destroying or imposing unnecessary costs. Taking responsibility for a social violation does little to signal financial ability, yet exposes the organization to potential financial losses. In contrast,

financially-oriented stakeholders are likely to view defensiveness as a means to avoid or reduce the negative financial repercussions of a social violation (Lamin & Zaheer, 2012). As such, their assessments of a firm's financial reputation are likely to decrease as a firm's accommodativeness to a social violation increases. Such a response is consistent with prior empirical work. For example, examining stock market reactions as a proxy for financially-based evaluations, Lamin and Zaheer (2012) found that the stock market reacted positively to defensive strategies in response to accusations of using sweatshop labor, and negatively to more accommodative strategies.

To summarize, in a financial violation context, I predict that financially-oriented stakeholders will react positively to a more accommodative response as a firm reasserts control over its financial environment, thus positively influencing future financial reputation. In a social violation context, I predict that a firm's financially-oriented stakeholders will react negatively to accommodativeness as the firm exposes itself to potential legal liabilities and financial losses, thus negatively influencing future financial reputation.

*H2a: For a financial violation, the accommodativeness of a firm's response strategy will be positively related to future financial reputation.*

*H2b: For a social violation, the accommodativeness of a firm's response strategy will be negatively related to future financial reputation.*

## **Social Reputation**

***Endowed social reputation as an antecedent.*** In contrast to financial reputation, a firm's social reputation is built via the consistent demonstration of *integrity* in its interactions with stakeholders (Lamin & Zaheer, 2012; Mishina et al., 2012). For example, a firm may build social reputation by consistently treating employees fairly, by having a proactive relationship with the

environment, or by conforming to culturally valued norms and expectations. Stakeholders making social reputation judgments will be concerned with firm behaviors that provide social value, rather than focusing just on financial impact (Lamin & Zaheer, 2012). Love and Kraatz (2009) argued that social reputation is based on a firm's desirable character traits, such as perceived trustworthiness and social reliability. Others have characterized this specific reputation as representing a firm's virtue, moral character, ethics, or reputation for social responsibility and performance (Brown, 1997; Doh et al., 2010; Zyglidopoulos, 2001).

Given the path-dependent nature of reputation, a firm wishing to repair its social reputation will be likely to exhibit integrity in its response to a violation, regardless of the violation type (Pfarrer et al., 2010). A more accommodative strategy has normative value in that it satisfies social expectations of justice, sincerity, and fairness (Coombs, 2007; Dean, 2004; Pfarrer et al., 2008a; Shapiro, 1991; Tyler, 1997). Evaluators may interpret an organization's acceptance of responsibility for the violation as a sign of goodwill, and may interpret a firm's efforts to resolve the violation as sincere attempts to restore the social relationship (Benoit, 1995; Pfarrer et al., 2008a; Sutton & Callahan, 1987). In contrast, a defensive response is likely not consistent with the behavior used to develop social reputation. A defensive strategy can be perceived as value-neutral at best and value-negative at worst, as the firm attempts to deflect responsibility and provides little information concerning how the violation will be resolved (Dean, 2004). Thus, because a more accommodative strategy will be perceived as a better option to portray integrity, social reputation should be positively related to accommodativeness, regardless of the violation type.

*H3a: For a financial violation, endowed social reputation will be positively related to the accommodativeness of a firm's response strategy.*



*H3b: For a social violation, endowed social reputation will be positively related to the accommodativeness of a firm's response strategy.*

***Future social reputation as an outcome.*** While social reputation is expected to positively influence accommodativeness, regardless of violation type, I argue that the violation type is important for understanding whether accommodativeness will be positively or negatively related to a firm's future social reputation as an outcome. As mentioned above, a more accommodative strategy demonstrates integrity through its sincerity, fairness, and display of social concern. A number of organizational, communications, and impression management scholars have argued that acknowledging a negative violation and signaling concern over societal norms is essential for maintaining a positive social relationship (e.g., Benoit, 1995; Coombs, 2007; Elsbach, 2003; Pfarrer et al., 2008a). Empirical evidence supports this. For example, Bradford and Garrett (1995) showed that in response to a safety violation, a more accommodative response increased evaluators' perceptions of the firm as an honest, concerned, and responsive organization.

However, a more accommodative strategy also confirms a firm's responsibility for a negative violation. Socially-oriented stakeholders may interpret a firm's responsibility as "highly diagnostic negative integrity information" (Kim et al., 2004: 107). Previous research has shown that negative information is much more diagnostic than positive information when dealing with integrity-based judgments like social reputation (Skowronski & Carlston, 1989). Because of this, the negative information conveyed via responsibility for the violation may outweigh any positive information concerning justice and fairness. Thus, many scholars have argued and found support for the idea that a more accommodative strategy can be damaging when managing integrity-based judgments (e.g., Kim et al., 2004; Mishina et al., 2012). For example, Kim et al. (2004)

found that providing a more accommodative response for an integrity-based violation reduced perceptions that a trading partner adhered to a set of shared integrity principles.

A number of factors may help to explain the conflicting relationship between accommodativeness and social perceptions of integrity. For example, not all negative events are attended to equally (Hoffman & Ocasio, 2001). Rhee and Valdez (2009) argued that the greater the relevance of the damaging event to the social assessment, the greater attention paid by stakeholders and the more difficult the repair (also see Mishina et al., 2012). A similar argument can be found in the concept of moral intensity (Butterfield, Trevino, & Weaver, 2000; Frey, 2000; Jones, 1991). Moral intensity is an issue-contingent assessment of the moral imperative in a given situation. An issue high in moral intensity has a high magnitude of consequences (defined as the normative sum of harms done to victims) and high social consensus regarding the negativity of the issue (defined as the degree of social agreement that the event is negative). Issues that are morally intense will attract attention and scrutiny from morally-oriented stakeholders—the same stakeholders that make social reputation judgments.

Thus, negative perceptions of an integrity violation likely increase as the violation is perceived to be more morally and normatively undesirable. Because of this, the violation type is an important factor when considering how social reputation—an integrity-based judgment—is influenced as an outcome of a response strategy. A financial violation may lack high moral salience and be forgiven by socially-oriented stakeholders who may instead prefer the integrity of an accommodative response. For example, restatements can be the result of fraud, but can also be the result of errors and misinterpretation of complex and sometimes burdensome rules and regulations (Kalbers, 2009). Thus, stakeholders may find it difficult to come to a consensus that the violation is morally inappropriate (Jones, 1991). In contrast, being held responsible for a

social violation may be damaging to social reputation and the negative integrity information is liable to overcome any forgiveness associated with a firm's response. Thus, a more accommodative strategy can be detrimental when managing integrity-based judgments (e.g., Kim et al., 2004; Mishina et al., 2012).

*H4a: For a financial violation, the accommodativeness of a firm's response strategy will be positively related to future social reputation.*

*H4b: For a social violation, the accommodativeness of a firm's response strategy will be negatively related to future social reputation.*

### **General Reputation**

***Endowed general reputation as an antecedent.*** Building from research in social psychology (Haidt & Bjorklund, 2007), Lange et al. (2011: 165) described general reputation as reflective of perceivers' heuristic "approach-avoidance" or "good-bad" judgments. As a heuristic judgment, the information or signals used in the social construction of general reputation are much less specific when compared to the ability or integrity signals used to construct specific reputations. Instead, the information is framed in terms of being simply "good" versus "bad". A firm builds a general reputation by minimizing generically bad signals while emphasizing generically good signals; the specific context of the signal is not important. Just as in building its general reputation, a firm who wishes to repair its general reputation when facing a violation would be likely to minimize any bad signals.

While a more accommodative strategy may demonstrate control over the financial environment and signal a concern for integrity, it also conveys a generically bad signal in that it confirms the firm is responsible for a negative violation. Specific reputation judgments are more concerned with the deeper nuances of control and integrity, but general reputation judgments are

more simply concerned with the good or bad impressions imposed on stakeholders. Because a more accommodative strategy is predicated on a firm's accepting responsibility for a crisis, it is likely that managers will see such a strategy as generically negative, regardless of the type of violation. Thus I predict:

*H5a: For a financial violation, endowed general reputation will be negatively related to the accommodativeness of a firm's response strategy.*

*H5b: For a social violation, endowed general reputation will be negatively related to the accommodativeness of a firm's response strategy.*

***Future general reputation as an outcome.*** As mentioned above, when making general reputation judgments, rather than framing violation information according to a specific ability or integrity lens, stakeholders will frame new information according a general approach-avoidance lens. Such generalized judgments are susceptible to information processing heuristics and biases (Fiske & Taylor, 1991; Kahneman, Slovic, & Tversky, 1982). That is, in making specific judgments, stakeholders are prone to deeper and longer sensemaking efforts. In making general judgments, stakeholders are prone to quick decision making and judgment formation. A defensive strategy attempts to deflect responsibility and insert additional uncertainty into the situation. In making generalized "good" versus "bad" judgments, many stakeholders will be inclined to agree with the organization's defensive response, either deemphasizing the focal organization's responsibility or attributing responsibility elsewhere. Given the general and heuristic nature of the judgment, others will be reluctant to expend the time and effort required to gather more information and will be pacified by an organization's defensive posture (Connelly, Certo, Ireland, & Reutzel, 2011; Sanders & Carpenter, 2003).

Research in social information processing suggests a similar logic. In uncertain situations, stakeholders have a number of information processing biases, including a tendency to anchor judgments consistent with initial and easily available information (Tversky & Kahneman, 1974). The impact of this anchoring bias has been found to hold across a range of generalized firm judgments, including a firm's ability to produce accurate financial forecasts (Bromiley, 1987) and assessments of managerial performance (Neumann, Roberts, & Cauvin, 2011). In terms of the general perceptions of a violation, the anchoring bias is relevant because stakeholders will likely weigh a firm's initial response—and the impression it generates—more heavily than subsequent information. This explains why public relations practitioners emphasize the importance of providing a general response strategy at the onset of a violation (Massey, 2001). Quickly reaching out to stakeholders with positively framed information should serve to anchor general social perceptions towards a more favorable impression of the organization (Murphy, 1991). In the case of a defensive strategy, the impression should be one of diffused responsibility and reduced negativity of the event. The effect of the bias should reduce the magnitude of damage to general reputation, regardless of the violation type.

A number of empirical studies have also shown general negative reactions to an organization's disclosure of responsibility for a violation. For example, Dean (2004) found that being held responsible for a negative violation had a strong negative relationship with overall firm regard—a construct akin to general reputation. Additionally, in an experimental study, Turk, Jin, Stewart, Kim, and Hipple (2012) found that participants reported more positive attitudes towards a firm with a prior good reputation using a less accommodative (defensive) response strategy. I therefore hypothesize:

*H6a: For a financial violation, the accommodativeness of a firm's response strategy will be negatively related to future general reputation.*

*H6b: For a social violation, the accommodativeness of a firm's response strategy will be negatively related to future general reputation.*

## CHAPTER 4

### METHODOLOGY

#### **Samples**

The financial violation sample for my study consists of firms that engaged in “aggressive accounting practices,” leading to financial accounting restatements as recorded by the U.S. Government Accountability Office (GAO 2002: 4; 2006). Prior work suggests that restatements represent an important context for studying negative financially-based expectancy violations (cf., Arthaud-Day et al., 2006; Desai, Hogan, & Wilkins, 2006; Pfarrer et al., 2008b; Srinivasan, 2005; Zhang, Bartol, Smith, Pfarrer, & Khanin, 2008). All firms in the sample are U.S. public companies. In order to ensure data availability, I have restricted the sample frame to firms listed in the S&P 1500 index anytime from 1997-2005, the timeframe covered in the GAO database. My unit of analysis is each specific restatement (sample frame  $N = 387$ ). Due to the availability of data for several of my controls, my final achieved sample contains 370 restatements by 287 firms. I conducted  $t$ -tests to check for differences between the achieved sample and the dropped observations ( $n=17$ ). There were no statistically significant differences across my set of dependent and independent variables. The achieved sample size is comparable to other research using the GAO dataset. For example, Pfarrer et al. (2008b) had a sample of 385, and others ranged from 477 (Desai et al., 2006) to 116 (Arthaud-Day et al., 2006).

The social violation sample consists of firms that faced civil or administrative accusations of environmental malfeasance as recorded by the Environmental Protection Agency (EPA). Prior work suggests that environmental violations represent an important context for studying negative

socially-based expectancy violations (cf. Barnett & King, 2008; Delmas & Toffel, 2008; Hendry, 2006; King & Lenox, 2000; Zyglidopoulos, 2001). The sample frame consists of all civil cases and settlements brought against a firm by the EPA for violations to the Clean Air Act, Clean Water Act, Superfund Act, and other laws and policies enforced by the EPA. The data was collected from the EPA's Enforcement and Compliance History Online database. I collected EPA violations over \$50,000 committed by publicly traded firms from 1996 to 2008. Many firms are involved in settlements under \$50,000, and my restriction to violations above this amount should make for a more conservative test of my hypotheses. My unit of analysis is each unique enforcement case (sample frame  $N=87$ ). Given data availability, the final sample consists of 75 violations by 58 firms. I conducted  $t$ -tests to check for differences between the achieved sample and the observations dropped due to data availability ( $n=12$ ). There were no statistically significant differences across my set of dependent and independent variables. This sample size is comparable to other research investigating social violations. For example, Lamin and Zaheer (2012) had a sample size of 127 observations for their study on sweatshop labor.

I used LexisNexis to gather press releases and media reports for my dependent and independent variables, and a combination of Compustat and Execucomp to collect my control variables. Below, I first describe my measures of firm reputation and then describe my measure for a firm's response strategy. The reputation and response strategy measures act as both exogenous and endogenous variables in my study. When treated exogenously, reputation is lagged as time  $t-1$  to represent "endowed" reputation, labeled  $\text{reputation}_{(t-1)}$ . When treated endogenously, reputation is led as time  $t+1$  to represent "future" reputation, labeled  $\text{reputation}_{(t+1)}$ . Time  $t$  is the day a violation is announced. The lagged and led time period is one year from the date of the violation.



## Reputation Measures

I used computer-aided textual analysis (CATA) techniques to develop my measures of social, financial, and general reputation (cf. Deephouse, 2000; Krippendorff, 2004; Neuendorf, 2002; Short, Broberg, Coglisier, & Brigham, 2010). CATA is a research method that uses a set of procedures to classify or otherwise categorize communication allowing for inference about context (Krippendorff, 2004; Short et al., 2010). Measures are constructed using standardized word counts based on dictionaries that are theorized to represent constructs of interest.

Researchers have used CATA to study a number of organizational constructs including reputation (Deephouse, 2000), other social evaluations such as legitimacy (Lamin & Zaheer, 2012; Pollock & Rindova, 2003), CEO performance (Short & Palmer, 2003), entrepreneurial orientation (Short et al., 2010), organizational sensemaking (Gioia & Chittipeddi, 1991), psychological capital (McKenny, Short, & Payne, 2013), as well as basic semantic features of language such as optimism, emotional content, and tenor (Pennebaker, Booth, & Francis, 2007; Pfarrer et al., 2010; Zavyalova et al., 2012).

I constructed my CATA reputation measures using word counts generated from firm media coverage. Mahon (2002: 420) noted that “The media’s role in underscoring the reputation of the firm or industry cannot be overestimated” (Mahon, 2002: 431), and using the media to measure reputation and other social evaluations is common in organizational research (e.g., Deephouse, 2000; Lamin & Zaheer, 2012; Pollock & Rindova, 2003; Zavyalova et al., 2012). I collected two sets of media coverage for each violation in both samples, one extending from the day before the violation to one-year prior to measure endowed reputation<sub>(t-1)</sub>, and one extending from the day after the violation to one-year forward to measure future reputation<sub>(t+1)</sub>. The media

comes from the 50 largest U.S. newspapers by circulation (cf. Zavyalova et al., 2012) as well as firm press releases and was collected using the firm's formal name as the search parameter.

To measure *general reputation*, I used the tenor of media coverage about a firm. Media tenor variables capture the perceptions of the firm based on the relative proportion of positive language in media. Deephouse (2000) originally used media tenor as a measure of general reputation, and a number of researchers have used similar measures in subsequent work (e.g., Bermiss, Zajac, & King, 2013; Pfarrer et al., 2010; Zavyalova et al., 2012). I analyzed each firm's media coverage using the pre-defined and validated dictionaries available in the Linguistic Inquiry and Word Count (LIWC) text analysis software to capture both positive and negative tenor in a given text (Pennebaker et al., 2007).<sup>2</sup> LIWC processes each text file to match words in the file to words in the pre-defined dictionary. The measure is a continuous variable representing the proportion of dictionary words over the total number of words in an available corpus, multiplied by 100. For example, if LIWC identified 22 positive tenor dictionary words in a sample corpus of 500 total words, the resulting variable would be 4.4 [(22/500) x 100]. Scaling the measure by the total word count controls for differences in the length of available corpus text (Short et al., 2010). I also collected a measure of *negative general reputation* to control for the proportion of negative tenor words in my analyses.

I developed unique CATA dictionaries for *financial* and *social* reputation following the guidelines of Short et al. (2010) and McKenny et al. (2013). The general process is to 1) use deductive and inductive techniques to develop a word dictionary to represent each construct, 2) validate word lists using content experts and assess rater reliability, and 3) assess the predictive validity of the new variables. I began by using the formal definitions for social and financial reputation detailed above, combined with other definitions found in the literature, to develop

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<sup>2</sup> For a detailed discussion of the reliability and validity of LIWC please see <http://liwc.net/liwcdescription.php>.

exhaustive word lists for each type of reputation. Using Rodale's *Synonym Finder* (1978), I built a dictionary for financial reputation using the following keywords: ability, performance, profit, value, return, and competence. Similarly, I built a social reputation dictionary using the following keywords: integrity, character, responsibility, values, principles, transparency, ethical, and benevolence. I then supplemented each deductive dictionary with an inductive search of common reputation words found in the sample corpus of media coverage. The final, mutually exclusive word lists included 269 words for financial reputation and 277 for social reputation.

These word lists were then validated using expert raters. I used two raters who each have published multiple top-tier journal articles on the concept of firm reputation and on other social evaluation topics. These raters selected 67 words from the financial reputation dictionary and 143 words from the social reputation dictionary to represent the respective constructs. I used Holsti's method (1969) to assess interrater reliability. The reliabilities were 0.75 and 0.73 for financial and social reputation, respectively, both of which fall within acceptable ranges and demonstrate consistency between raters (Short et al., 2010). I used the same techniques to develop word lists to capture the negative counter to each reputation (e.g., *negative financial reputation* and *negative social reputation*). The negative dictionaries were used to generate controls in the final analyses. Like the measure for general reputation, the financial and social reputation measures are continuous variables representing the proportion of dictionary words over the total words in the corpus. The complete word dictionaries are provided in Appendix B.

Finally, to demonstrate face and predictive validity of my measures, I tested each measure to see if it would predict being ranked in a popular certification ranking for each type of reputation. It is logical to assume that the reputation captured in the media coverage of a firm would translate into a positive ranking on a public certification contest. Such certifications are

often used as proxies for corporate reputation (cf. Dowling & Gardberg, 2012; Fombrun, 2007; Graffin & Ward, 2010). I used *Fortune's Most Admired Companies* to represent financial reputation. While *Fortune* does not formally define reputation, many have come to infer that the ranking is a general measure of financial reputation (Dowling & Gardberg, 2012). Indeed, several researchers have identified a “financial halo” around the *Fortune* measure and argue that the presence of the halo makes the ranking only a good proxy for financial-based reputation and warn against its use as a general measure of reputation (Brown & Perry, 1994; Deephouse, 2000; Fryxell & Wang, 1994). I used *Corporate Responsibility Magazine's (CR) Best Corporate Citizens* list to represent social reputation. *CR's* ranking evaluates corporate accountability and responsibility using over 300 data elements among seven categories ranging from climate change to corporate philanthropy (cf. CR, 2012). Finally, I used *Reputation Quotient* to represent general reputation. The definition of reputation for the *Reputation Quotient* survey can be summed as the firms “held in the highest regard” by sampled stakeholders (Fombrun, Gardberg, & Sever, 2000: 13), and is often used to represent general reputation (Dowling & Gardberg, 2012).

I regressed each reputation ranking on the set of media reputation measures using the financial restatement sample. I also included controls for firm size, total word count of the text corpus, and year. The results from these regressions are presented in Table 2. Model 1 shows that the financial reputation media measure positively predicts ( $p < 0.01$ ) being ranked in *Fortune's Most Admired Companies* while the other media reputation measures do not predict being ranked. Similarly, Model 2 shows that the social reputation media measure positively predicts ( $p < 0.10$ ) being ranking in the *CRO* survey, while the other media measures are not statistically significant. Finally, Model 3 shows that the general reputation media measure positively predicts

( $p < 0.05$ ) being ranked in the *Reputation Quotient* survey. Overall, the pattern of relationships suggests valid media measures of reputation.

**Table 2**  
**Reputation Construct Validation <sup>a</sup>**

Variable	Model 1	Model 2	Model 3
	DV = <i>Fortune's Most Admired</i>	DV = <i>CRO's Best Corporate Citizen</i>	DV = <i>Reputation Quotient</i>
Financial reputation <sub>(t-1)</sub> (media)	7.965** (2.755)	1.043 (1.617)	1.593 (1.684)
Social reputation <sub>(t-1)</sub> (media)	7.860 (6.563)	6.830† (4.155)	8.906† (4.667)
General reputation <sub>(t-1)</sub> (media)	0.977 (1.051)	-0.131 (0.988)	3.381** (1.144)
Firm size (log of sales)	1.237** (0.420)	-0.009 (0.228)	0.504 (0.320)
Word count	0.000† (0.000)	0.000 (0.000)	0.000** (0.00)
Years (2000-2004)	Included	Included	Included
Pseudo R <sup>2</sup>	0.390	0.139	0.413
Log likelihood	-26.962	-58.482	-42.603
Wald chi <sup>2</sup>	22.60*	18.94*	37.81**

<sup>a</sup> N=203; Logistic regression coefficients reported for all DVs. Robust standard errors are in parentheses. All tests are two-tailed.

†  $p \leq 0.10$ ; \*  $p \leq 0.05$ ; \*\*  $p \leq 0.01$

### Response Strategy Measure

I used a structured content analysis technique to analyze firm-generated, public press releases on the day a violation was announced to capture a firm's *response strategy* (cf. Duriau, Reger, & Pfarrer, 2007; Lamin & Zaheer, 2012). Financial laws require that a firm issue a public statement when restating their earnings, so a press release or other statement was available for all observations in the GAO dataset. In contrast, firms are not legally required to respond to an EPA violation. When a firm-generated press release was not available I relied on the EPA's

announcement of the violation to code for the firm's response. Each press release was evaluated in its entirety as the unit of analysis and coded based on the primary message of the release (Lamin & Zaheer, 2012). As mentioned above, a response strategy exists along a continuum of accommodativeness, with lower levels of accommodativeness often referred to as defensive strategies (cf. Coombs, 2011). Thus, I coded using a seven-point scale, with 1 being a fully defensive strategy and 7 being a fully accommodative strategy. A positive increase in the scale signifies a positive increase in perceived accommodativeness. I employed a trained graduate student who was blind to the hypotheses of the study to assess interrater reliability. Consistent with recommendations (Neuendorf, 2002), we each independently coded a random sample of 200 press releases from the complete GAO dataset. A Krippendorff's alpha of 0.92 indicated high interrater agreement (Krippendorff, 2004).

## **Controls**

I included a variety of response-level and firm-level controls to help eliminate alternative explanations. As mentioned above, across both samples I employed measures for *negative reputation* to control for the countervailing effect of negative reputation words. Research using the media to measure reputation commonly models both positive and negative aspects of media coverage (cf. Deephouse, 2000; Zavyalova et al., 2012). In models testing  $reputation_{(t+1)}$  as an outcome I also included controls for *prior reputation* $_{(t-1)}$  to account for the influence of a firm's reputation history on the social construction of a new reputation. In all models across both samples I also controlled for *firm size* and *firm performance*, as well as whether or not a firm had a *prior violation*. Larger and more profitable firms may garner more attention for their violations, which may negatively influence reputation. Additionally, a firm that has a prior violation may find it more difficult to repair reputation and may be inclined to prefer one response strategy over

another. Firm size is measured as the logarithm of firm sales. I employed an alternative measure using the logarithm of the number of firm employees and received substantively similar results. Firm performance is measured using return on assets (ROA), the ratio between net income and total assets. Both firm size and performance are lagged one-year relative to the dependent variable of interest. Prior violation is a dummy variable taking a value of 1 if the firm had a similar violation in the previous year. An alternative measure capturing a violation in the past three years led to substantively similar results. Finally, across both samples I also controlled for the total *word count* (in millions) of the corpus text to control for the visibility of the firm in the press during the year prior to the violation.

For the GAO sample, I controlled for whether or not the restatement was related to the *core* earnings of the firm and the *direction* of the restatement, both of which could influence firm outcomes (cf. Palmrose & Scholz, 2004). Both variables are dummy coded, with 1 indicating a core restatement or a positive restatement, respectively. I also employed dummy controls for *year* and *industry*, with industry specified at the one-digit SIC level. I also controlled for the *prominence* of the violation within the press release, the *source* of the restatement, and whether or not the restatement was *bundled* with other news items. Research in accounting has found that less prominent disclosures (e.g., restatement disclosures in a footnote to operating results) can reduce the negative perceptions associated with a restatement (Files, Swanson, & Tse, 2009). This variable takes a value of 1 if the disclosure was in the headline of the press release, a 2 if the disclosure was in the body of the release narrative, and a 3 if the disclosure was in a footnote. Research also indicates that the restatement source—either self-disclosed by the firm or a disclosure forced by the SEC—can influence firm outcomes (cf. Pfarrer et al., 2008b). This variable takes a value of 1 if the disclosure was initiated by the focal firm and a zero otherwise.

Finally, a restatement bundled with other news items could dampen the negative reaction to the restatement (Graffin, Carpenter, & Boivie, 2011). This variable takes a value of 1 if the press release contained multiple news items and a zero otherwise.

For the EPA sample, I controlled for the size of the *financial penalty* associated with the violation, measured as the total dollar amount of the settlement (in millions). I also dummy coded for instances in which I had to rely on an *EPA press release* for the response strategy information. Finally, due to the small sample size and my estimation technique detailed below, I was unable to employ dummy controls for year and industry given a lack of statistical power. I thus employed a dummy variable to control for the *presidential administration* in which the EPA violation occurred. A value of 1 indicates the violation took place during the administration of George W. Bush, and a 0 during the administration of Bill Clinton. To control for potential industry effects I employed a dummy variable indicating if the violating firm was in *manufacturing*, as represented by SIC codes ranging from 2000-3999.

### **Estimation Procedure**

Both samples include firms with repeated violations over time, and several within the same firm-year. Additionally, models in which future reputation is specified as an outcome include a firm's prior reputation as a control variable. Given these sample and model characteristics, the assumption of constant error variance needed for ordinary least squares regression is potentially violated (Wooldridge, 2000). Thus, in order to determine the appropriate analytic method, I tested each sample for the presence of heteroskedasticity and autocorrelation. A Cook-Weisberg test revealed the presence of heteroskedasticity across all models. Durbin's alternative test for autocorrelation, which tests for autocorrelation resulting from a lagged dependent variable, revealed no concerns except for the model testing financial reputation<sub>(t+1)</sub> in



the GAO sample. Given these results, I employed feasible generalized least squares (FGLS) to estimate my models. FGLS has been used in prior research investigating firm response strategies (cf. Lamin & Zaheer, 2012) and provides reliable estimates in the presence of heteroskedasticity while not requiring *a priori* specification of the form of heteroskedasticity (Wooldridge, 2000). I also ran additional analyses robust to autocorrelation for the financial reputation<sub>(t+1)</sub> model in the GAO sample. These results were substantively similar to those reported below.

The causal ordering of my models is likely best suited for two-stage estimation. A two-stage design allows me to predict a firm's response strategy in the first stage, and, in-turn, predict the influence of that response strategy on a firm's reputation<sub>(t+1)</sub> in the second stage while controlling for endogeneity resulting from the first-stage equation. Two-stage estimation requires the identification of unique instrument variables that are predictive of the first-stage endogenous variable but are uncorrelated with the error term in the final models. I used three dummy variables as instruments in the GAO sample: whether the firm announced substantive *action* taken to prevent the violation from reoccurring, whether the violation was left unresolved or *open-ended*, and whether the restatement required *multiple adjustments* to a firm's accounting statements (e.g., an adjustment to earnings and assets).<sup>3</sup> Because of statistical power and identification concerns, I only used the open-ended instrument in the EPA sample.<sup>4</sup> In the first stage I regressed the response strategy variable on the set of independent reputation<sub>(t-1)</sub> variables, controls, and instruments. I used the results from the first-stage estimations to test Hypotheses 1a, 1b, 3a, 3b, 5a, and 5b. In the second stage I regressed the reputation<sub>(t+1)</sub> variable on the controls and the fitted value of the response strategy variable obtained from the first-stage estimation. I used the results from the second-stage estimations to test Hypotheses 2a, 2b, 4a, 4b,

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<sup>3</sup> The regression results were substantively unchanged when using any combination of the instruments.

<sup>4</sup> Due to the small sample size, using more than one instrument would result in a just-identified model with 0 degrees of freedom.

6a, and 6b. I estimated a total of six two-stage models, one model for each of the three reputation<sub>(t+1)</sub> variables in each sample.

I also tested the instruments for relevance and exogeneity, as suggested by Bascle (2008). All first-stage *F*-statistics were above the appropriate values identified by Stock and Yogo (2005), suggesting that the instruments are strong and relevant to the endogenous response strategy variable (GAO sample *F*-statistic= 9.98, above the critical value of 9.08; EPA sample *F*-statistic= 17.25, above the critical value of 16.38). All Hansen-*J* statistics across the second-stage models in the GAO sample revealed that the instrument variables were exogenous, meaning that the instruments were not correlated with the error terms in the second stage (the highest Hansen-*J* statistic across GAO models=4.536, p-value=0.1053; a failure to reject the null means that the instruments can be considered exogenous [ Bascle, 2008]).

I was unable to formally test for instrument exogeneity in the EPA sample because the test requires more instruments than endogenous terms (Bascle, 2008). However, an analysis of correlations in the EPA sample revealed that the open-ended instrument was not significantly correlated with the reputation<sub>(t+1)</sub> dependent variables (see Table 4 below). Additionally, post-hoc testing in the EPA sample revealed that the open-ended instrument was not significantly correlated with the residuals from the second-stage results across the three models. Finally, in an additional post-hoc analysis I re-estimated the EPA models dropping a control variable that was not statistically significant across the three original models (firm performance, see Table 6 below) and adding an additional instrument variable (action), thus allowing me to compute a formal test for instrument exogeneity while maintaining model identification. The Hansen-*J* statistic was not significant (p=0.4274) for the open-ended instrument. These correlations and

post-hoc results, combined with the results from the GAO sample, suggest the instrument is likely exogenous.

I also recognize that the EPA sample may be subject to additional endogeneity concerns related to a firm choosing not to issue a press release. It is possible that a firm's decision to let the EPA control the release of violation information is nonrandom and may be reflective of forces that also influence a firm's overall response strategy to the violation. To rule out this potential selection issue, I employed a two-stage Heckman model (1979). In the first stage, I predicted the likelihood of a firm issuing its own press release using the full set of independent and control variables. I used the firm performance variable as an instrument, as tests revealed that firm performance did not significantly influence a firm's response strategy (see results from Model 2 in Table 6 below), but it may influence the firm's propensity to issue a unique press release. The first-stage model generates an inverse Mills ratio representing the selection hazard for the decision to issue a press release. The firm performance variable was statistically significant and positive in the first-stage. I then included the inverse Mills ratio in the second stage predicting a firm's response strategy, along with the full set of independent and control variables, minus the firm performance variable. The inverse Mills ratio was not statistically significant, suggesting that endogeneity was not a concern (Heckman, 1979).

## CHAPTER 5

### RESULTS

Table 3 provides descriptive statistics and pairwise correlations for the measures in the GAO financial violation sample, and Table 4 provides descriptive statistics and correlations for the measures in the EPA social violation sample. I tested for multicollinearity using variance inflation factors (VIF). The largest mean VIF across all models was 3.16 and all individual VIFs were below the recommended cut-off of 10 (Chatterjee & Hadi, 2006).

The results from the two-stage FGLS regression analyses appear in Tables 5 and 6. Table 5 presents results for the GAO financial violation sample, and Table 6 presents results for the EPA social violation sample. Models 1 and 2 in both tables present the results from the first-stage regressions testing Hypotheses 1a, 1b, 3a, 3b, 5a and 5b in which a firm's response strategy serves as the dependent variable. Model 1 is a baseline model and only includes the control variables. Model 2 includes the controls and the reputation<sub>(t-1)</sub> variables. Hypothesis 1a predicts that financial reputation<sub>(t-1)</sub> will be positively related to accommodativeness for a financial violation, and Hypothesis 1b predicts that financial reputation<sub>(t-1)</sub> will be negatively related to accommodativeness for a social violation. Neither hypothesis is supported. Model 2 of Table 5 shows that a firm's financial reputation<sub>(t-1)</sub> does not have a statistically significant relationship with its response strategy in a financial violation, thus providing no support for H1a. Model 2 of Table 6 shows that a firm's financial reputation<sub>(t-1)</sub> has a positive and statistically significant relationship with its response strategy for a social violation, in the opposite direction H1b. I consider these divergent findings in the Discussion section below.

**Table 3**  
**Descriptive Statistics – Financial Violation Sample <sup>a</sup>**

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Response strategy	3.93	1.26									
2. Financial reputation (t+1)	0.83	0.24	0.00								
3. Social reputation (t+1)	0.28	0.11	-0.02	0.29							
4. General reputation (t+1)	1.45	0.45	-0.03	0.43	0.55						
5. Financial reputation (t-1)	0.83	0.24	-0.02	0.50	0.14	0.30					
6. Social reputation (t-1)	0.27	0.11	-0.00	0.16	0.68	0.44	0.25				
7. General reputation (t-1)	1.45	0.46	-0.08	0.26	0.42	0.81	0.48	0.50			
8. Negative financial reputation (t-1)	0.08	0.07	0.12	0.03	-0.07	-0.03	0.11	-0.07	-0.01		
9. Negative social reputation (t-1)	0.05	0.06	-0.00	-0.03	0.18	0.22	-0.00	0.21	0.26	0.56	
10. Negative general reputation (t-1)	0.47	0.21	-0.05	0.09	0.38	0.49	0.20	0.44	0.58	0.07	0.43
11. Core restatement	0.83	0.38	-0.12	0.06	0.01	0.04	0.05	0.01	0.03	0.06	0.03
12. Direction	0.11	0.31	0.18	-0.03	-0.02	-0.02	-0.08	0.00	-0.06	0.11	-0.07
13. Past violation	0.13	0.34	0.06	0.08	-0.07	-0.08	0.01	-0.04	-0.03	0.02	0.04
14. Prominence	1.54	0.61	-0.17	-0.06	-0.08	-0.06	-0.04	-0.11	-0.05	-0.05	-0.06
15. Word count	0.32	0.34	-0.04	0.02	0.35	0.28	-0.03	0.29	0.24	-0.12	0.17
16. Firm performance (ROA)	7.60	81.83	0.09	0.05	-0.05	0.00	0.04	0.01	0.04	0.03	0.08
17. Firm size (log of sales) <sup>b</sup>	8754	17487	-0.04	-0.02	0.37	0.34	-0.01	0.36	0.31	-0.01	0.28
18. Bundled	0.59	0.49	-0.11	0.04	-0.11	-0.09	0.04	-0.13	-0.04	0.04	-0.09
19. Source	0.64	0.48	0.19	0.03	-0.02	-0.04	-0.00	0.02	-0.05	0.09	0.04
20. Action	0.18	0.38	0.19	0.12	-0.02	0.05	0.10	-0.06	0.00	0.07	0.08
21. Open-ended	0.37	0.48	-0.07	0.08	0.01	0.01	0.14	-0.06	0.01	0.06	0.08
22. Multiple adjustments	0.26	0.44	0.15	0.08	0.02	0.02	0.06	0.04	0.02	0.13	0.11

<sup>a</sup> Correlations greater than |0.10| are significant at  $p < 0.05$

*(continued)*

<sup>b</sup> Unlogged mean and standard deviation presented

**Table 3 (Continued)****Descriptive Statistics – Financial Violation Sample <sup>a</sup>**

Variable	10	11	12	13	14	15	16	17	18	19	20	21
11. Core restatement	0.03											
12. Direction	-0.04	0.09										
13. Past violation	0.02	0.02	-0.04									
14. Prominence	-0.09	-0.06	-0.02	-0.00								
15. Word count	0.38	-0.06	-0.01	0.04	-0.02							
16. Firm performance (ROA)	0.08	0.03	-0.02	0.05	0.01	-0.03						
17. Firm size (log of sales)	0.49	0.01	0.08	0.03	-0.11	0.51	0.02					
18. Bundled	-0.15	0.02	-0.02	0.01	0.49	-0.14	-0.02	-0.18				
19. Source	0.04	0.12	0.06	0.04	-0.21	-0.09	0.05	-0.06	-0.01			
20. Action	-0.00	0.15	-0.01	0.02	-0.18	-0.08	0.05	0.02	-0.05	0.13		
21. Open-ended	0.04	0.12	-0.13	0.06	-0.15	0.04	0.09	-0.03	-0.06	0.11	0.27	
22. Multiple adjustments	0.07	0.13	0.09	0.22	-0.06	0.04	0.03	0.16	-0.03	0.09	0.17	0.18

<sup>a</sup> Correlations greater than |0.10| are significant at  $p < 0.05$

**Table 4**  
**Descriptive Statistics – Social Violation Sample <sup>a</sup>**

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Response strategy	3.72	1.24									
2. Financial reputation (t+1)	0.82	0.20	0.04								
3. Social reputation (t+1)	0.34	0.15	0.07	-0.19							
4. General reputation (t+1)	1.54	0.38	0.14	0.32	0.32						
5. Financial reputation (t-1)	0.80	0.24	0.01	0.68	-0.25	0.28					
6. Social reputation (t-1)	0.32	0.10	0.19	-0.10	0.63	0.45	0.02				
7. General reputation (t-1)	1.52	0.41	0.04	0.24	0.13	0.73	0.46	0.50			
8. Negative financial reputation (t-1)	0.07	0.04	0.01	0.21	-0.22	0.00	0.45	-0.19	-0.00		
9. Negative social reputation (t-1)	0.06	0.04	0.07	-0.09	-0.02	0.20	-0.01	0.41	0.43	0.24	
10. Negative general reputation (t-1)	0.56	0.23	0.26	0.10	0.23	0.59	0.24	0.55	0.68	0.03	0.45
11. EPA release	0.74	0.44	0.01	0.10	-0.35	-0.10	0.07	0.27	-0.05	0.08	-0.03
12. Financial penalty	1.85	3.51	-0.09	0.11	-0.04	0.05	0.10	-0.08	0.02	-0.05	0.04
13. Past violation	0.08	0.27	-0.04	0.04	-0.04	0.08	0.30	0.05	0.18	0.10	-0.03
14. Bush admin	0.67	0.47	0.12	-0.10	0.15	0.09	-0.13	0.18	0.03	0.07	0.09
15. Manufacturing	0.71	0.46	-0.02	0.18	-0.46	-0.19	0.31	-0.33	-0.05	0.16	-0.04
16. Word count	0.43	0.50	0.32	0.03	0.05	0.21	0.03	0.08	0.13	-0.05	-0.05
17. Firm performance (ROA)	4.45	8.49	-0.05	0.30	-0.52	0.20	0.35	-0.31	0.31	0.00	0.12
18. Firm size (log of sales) <sup>b</sup>	43564	67400	0.08	0.10	0.10	0.37	0.31	0.45	0.49	-0.01	0.24
19. Open-ended	0.06	0.23	-0.38	0.05	0.20	0.08	0.02	-0.03	-0.02	-0.14	-0.05

<sup>a</sup> Correlations greater than |0.21| are significant at  $p < 0.05$

*(continued)*

<sup>b</sup> Unlogged mean and standard deviation presented

**Table 4 (Continued)****Descriptive Statistics – Social Violation Sample <sup>a</sup>**

Variable	10	11	12	13	14	15	16	17	18
11. EPA release	-0.01								
12. Financial penalty	-0.01	-0.37							
13. Past violation	0.07	0.18	-0.10						
14. Bush admin	0.05	0.24	-0.34	0.21					
15. Manufacturing	-0.10	0.08	0.08	0.00	-0.23				
16. Word count	0.34	0.18	-0.12	0.14	0.24	0.10			
17. Firm performance (ROA)	0.29	0.39	0.03	0.19	-0.11	0.30	0.20		
18. Firm size (log of sales) <sup>b</sup>	0.52	0.20	-0.14	0.41	0.40	-0.09	0.44	0.27	
19. Open-ended	-0.14	-0.30	0.13	-0.07	-0.24	-0.06	-0.14	-0.03	-0.20

<sup>a</sup> Correlations greater than |0.21 | are significant at  $p < 0.05$



**Table 5**

**Two-Stage FGLS Regression Results – Financial Violation Sample<sup>a</sup>**

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
	DV = Response strategy	DV = Response strategy	DV = Financial reputation (t+1)	DV = Financial reputation (t+1)	DV = Social reputation (t+1)	DV = Social reputation (t+1)	DV = General reputation (t+1)	DV = General reputation (t+1)
Response strategy	-	-	-	0.053** (0.008)	-	0.008** (0.002)	-	0.050** (0.014)
Financial reputation (t-1)	-	-0.018 (0.143)	0.422** (0.016)	0.405** (0.017)	-0.019** (0.003)	-0.022** (0.004)	-0.160** (0.019)	-0.170** (0.022)
Social reputation (t-1)	-	1.710** (0.410)	0.059 (0.041)	0.030 (0.037)	0.473** (0.012)	0.481** (0.011)	-0.002 (0.057)	-0.104 (0.064)
General reputation (t-1)	-	-0.250** (0.083)	0.032** (0.009)	0.040** (0.009)	0.018** (0.002)	0.017** (0.002)	0.825** (0.012)	0.840** (0.013)
Negative financial reputation (t-1)	2.297** (0.352)	2.512** (0.363)	-0.021 (0.064)	-0.085 (0.058)	-0.001 (0.013)	-0.012 (0.014)	0.143* (0.062)	-0.010 (0.062)
Negative social reputation (t-1)	-2.506** (0.452)	-2.671** (0.473)	0.024 (0.060)	0.097† (0.085)	0.054** (0.015)	0.066** (0.016)	-0.233† (0.123)	-0.102 (0.137)
Negative general reputation (t-1)	0.011 (0.158)	-0.074 (0.162)	0.008 (0.018)	0.023 (0.020)	0.030** (0.006)	0.033** (0.007)	-0.039 (0.025)	-0.042† (0.024)
Core restatement	-0.598** (0.064)	-0.613** (0.066)	0.012* (0.006)	0.036** (0.006)	-0.001 (0.002)	0.003 (0.002)	0.021† (0.012)	0.045** (0.015)
Direction	0.401** (0.069)	0.398** (0.084)	-0.016* (0.007)	-0.054** (0.009)	-0.006** (0.002)	-0.010** (0.002)	0.006 (0.009)	-0.017 (0.011)
Past violation	0.253* (0.108)	0.228* (0.113)	0.019* (0.009)	-0.003 (0.010)	-0.007* (0.003)	-0.006* (0.003)	-0.057** (0.015)	-0.068** (0.019)
Prominence	-0.089† (0.051)	-0.098* (0.048)	-0.012* (0.005)	-0.007 (0.005)	0.003* (0.001)	0.005** (0.001)	0.017** (0.006)	0.032** (0.006)
Word count	0.209* (0.085)	0.207* (0.101)	-0.021† (0.011)	-0.029* (0.011)	0.037** (0.004)	0.032** (0.003)	0.043** (0.013)	0.047** (0.017)
Firm performance (ROA)	0.001** (0.000)	0.001** (0.000)	0.000** (0.000)	0.000** (0.000)	-0.000** (0.000)	-0.000** (0.000)	-0.000 (0.000)	-0.000 (0.000)
Firm size (log of sales)	-0.072** (0.022)	-0.055* (0.023)	0.001 (0.003)	0.004 (0.003)	0.005** (0.001)	0.005** (0.001)	0.026** (0.003)	0.025** (0.004)
Bundled	-0.289** (0.068)	-0.268** (0.064)	0.016* (0.007)	0.033** (0.008)	-0.001 (0.002)	-0.000 (0.002)	-0.044** (0.006)	-0.036** (0.009)
Source	0.392** (0.060)	0.410** (0.067)	-0.007 (0.005)	-0.036** (0.006)	-0.011** (0.002)	-0.015** (0.002)	-0.016* (0.008)	-0.046** (0.009)
Action	0.801** (0.072)	0.869** (0.081)	-	-	-	-	-	-
Open-ended	-0.392** (0.056)	-0.380** (0.060)	-	-	-	-	-	-
Multiple adjustments	0.410** (0.058)	0.376** (0.066)	-	-	-	-	-	-
Constant	5.039** (0.296)	4.823** (0.291)	0.440** (0.026)	0.191** (0.039)	0.087** (0.007)	0.048** (0.012)	0.280** (0.047)	0.090** (0.076)
Wald Chi <sup>2</sup>	9745**	1867**	7123**	10282**	54026**	331182**	579933**	130443**

<sup>a</sup> N=370; Standard errors in parentheses. All tests two-tailed. Year and Industry dummies included in all models

† p ≤ 0.10; \* p ≤ 0.05; \*\* p ≤ 0.01

**Table 6**

**Two-Stage FGLS Regression Results – Social Violation Sample <sup>a</sup>**

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
	DV = Response strategy	DV = Response strategy	DV = Financial reputation (t+1)	DV = Financial reputation (t+1)	DV = Social reputation (t+1)	DV = Social reputation (t+1)	DV = General reputation (t+1)	DV = General reputation (t+1)
Response strategy	-	-	-	-0.013 (0.011)	-	-0.069** (0.010)	-	-0.101** (0.019)
Financial reputation (t-1)	-	1.889** (0.286)	0.702** (0.044)	0.706** (0.045)	-0.097** (0.021)	-0.006 (0.035)	0.031 (0.084)	0.027 (0.107)
Social reputation (t-1)	-	3.745** (0.879)	-0.626** (0.117)	-0.561** (0.131)	1.210** (0.039)	1.601** (0.087)	0.038 (0.189)	0.435† (0.261)
General reputation (t-1)	-	-0.706** (0.213)	0.014 (0.020)	0.014 (0.023)	-0.041** (0.010)	-0.081** (0.027)	0.747** (0.065)	0.713** (0.073)
Negative financial reputation (t-1)	-0.725 (1.957)	-5.464** (1.986)	0.477 (0.370)	0.589 (0.415)	0.143 (0.134)	0.019 (0.229)	0.371 (0.703)	1.671* (0.754)
Negative social reputation (t-1)	-1.826 (1.933)	2.140 (2.149)	-0.966** (0.281)	-1.005** (0.288)	-1.316** (0.106)	-1.230** (0.162)	-2.215** (0.472)	-2.043** (0.629)
Negative general reputation (t-1)	1.149** (0.144)	0.720 (0.512)	0.045 (0.044)	0.054 (0.047)	0.068** (0.022)	0.110* (0.045)	0.164** (0.044)	0.266** (0.077)
Word count	0.830** (0.114)	0.921** (0.061)	0.040* (0.018)	0.052* (0.020)	0.004 (0.008)	0.062** (0.014)	0.010 (0.024)	0.088** (0.033)
EPA release	-0.430 (0.302)	-0.403† (0.223)	-0.010 (0.015)	-0.007 (0.015)	-0.014** (0.005)	-0.024* (0.010)	-0.077* (0.035)	-0.104* (0.043)
Financial penalty	-0.044* (0.021)	-0.052** (0.020)	0.004** (0.001)	0.004** (0.001)	0.002** (0.001)	-0.001† (0.001)	0.008* (0.003)	0.004 (0.004)
Bush administration	0.097 (0.110)	0.318* (0.124)	0.034* (0.015)	0.033* (0.015)	0.005 (0.007)	0.044** (0.011)	0.089* (0.032)	0.158** (0.035)
Past violation	0.078 (0.208)	-0.211 (0.302)	-0.129** (0.021)	-0.130** (0.021)	0.025 (0.034)	0.021 (0.047)	-0.146* (0.058)	-0.133† (0.068)
Firm performance (ROA)	-0.001 (0.011)	0.009 (0.010)	-0.000 (0.001)	-0.000 (0.001)	-0.002** (0.001)	-0.001 (0.001)	0.004 (0.003)	0.006† (0.003)
Firm size (log of sales)	-0.204** (0.034)	-0.306** (0.041)	-0.004 (0.005)	-0.006 (0.005)	-0.010** (0.003)	-0.032** (0.006)	-0.012 (0.017)	-0.033† (0.017)
Manufacturing industry	0.067 (0.161)	0.015 (0.127)	-0.085** (0.020)	-0.077** (0.022)	-0.017** (0.004)	-0.012 (0.010)	-0.104** (0.025)	-0.064† (0.036)
Open-ended	-2.107** (0.262)	-2.341** (0.210)	-	-	-	-	-	-
Constant	5.266** (0.441)	4.796** (0.386)	0.500** (0.064)	0.513** (0.065)	0.239** (0.022)	0.506** (0.057)	0.531** (0.133)	0.790** (0.135)
Wald Chi <sup>2</sup>	1777**	6053**	1137**	1101**	29408**	365866**	10389**	1416**

<sup>a</sup> N=75; Standard errors are in parentheses. All tests are two-tailed.

† p ≤ 0.10; \* p ≤ 0.05; \*\* p ≤ 0.01

Hypotheses H3a and H3b both predict that social reputation will be positively related to being accommodative, regardless of the violation type. These hypotheses are supported. Model 2 of Table 5 shows that a firm's social reputation<sub>(t-1)</sub> has a statistically significant and positive relationship with its response strategy for a financial violation, providing support for H3a. Model 2 of Table 6 shows the same relationship in a social violation, providing support for H3b. The coefficient for the financial violation sample indicates that a one-standard deviation increase in social reputation<sub>(t-1)</sub> would increase the mean accommodativeness by approximately five percent. The effect is more pronounced for the social violation sample, with a one-standard deviation increase in social reputation<sub>(t-1)</sub> increasing mean accommodativeness by ten percent.

Hypotheses 5a and 5b, which predict that general reputation<sub>(t-1)</sub> will be negatively related to being accommodative for either violation type, are also supported. Model 2 of Table 5 shows a statistically significant and negative relationship between a firm's general reputation<sub>(t-1)</sub> and its response strategy for a financial violation, providing support for H5a. Similarly, Model 2 of Table 6 shows a statistically significant and negative relationship between a firm's general reputation<sub>(t-1)</sub> and its response strategy for a social violation, providing support for H5b. For the financial violation sample, a one-standard deviation increase in general reputation<sub>(t-1)</sub> decreases mean accommodativeness by three percent. In the social violation sample, a one-standard deviation increase in general reputation<sub>(t-1)</sub> decreases its mean accommodativeness by approximately eight percent.

Models 3 and 4 of Tables 5 and 6 present the results from the second-stage regression testing Hypotheses 2a and 2b, which address the relationship between a firm's response strategy and its future financial reputation<sub>(t+1)</sub>. Model 3 includes only the controls and Model 4 includes the controls and the response strategy independent variable (the fitted value obtained from the

first-stage regression). Hypothesis 2a predicts a positive relationship between accommodativeness and future financial reputation<sub>(t+1)</sub> for a financial violation. This hypothesis is supported as Model 4 of Table 5 shows a positive and statistically significant relationship. A one-standard deviation increase in accommodativeness would increase the mean future financial reputation<sub>(t+1)</sub> by eight percent. Hypothesis 2b predicts a negative relationship between accommodativeness and future financial reputation<sub>(t+1)</sub> for a social violation. This hypothesis is not supported as the coefficient for future financial reputation<sub>(t+1)</sub> in Model 4 of Table 6 is not statistically significant.

Models 5 and 6 of Tables 5 and 6 present the results from the second-stage regression testing Hypotheses 4a and 4b, which address the relationship between a firm's response strategy and its future social reputation<sub>(t+1)</sub>. Hypothesis 4a predicts that accommodativeness will be positively related to future social reputation<sub>(t+1)</sub> for a financial violation. This hypothesis is supported. The coefficient reported in Model 6 of Table 5 is statistically significant and positive. Hypothesis 4b predicts that accommodativeness will be negatively related to future social reputation<sub>(t+1)</sub> for a social violation. This hypothesis is also supported. The coefficient reported in Model 6 of Table 6 is statistically significant and negative. These results suggest that a one-standard deviation increase in accommodativeness would increase the mean future social reputation<sub>(t+1)</sub> by over three percent in the financial violation sample, but would decrease the mean future social reputation<sub>(t+1)</sub> by twenty-five percent in the social violation sample.

Finally, Models 7 and 8 of Tables 5 and 6 present the results from the second-stage regression testing Hypotheses 6a and 6b, which deal with the relationship between a firm's response strategy and its future general reputation<sub>(t+1)</sub>. The results provide no support for Hypothesis 6a; the result in Model 8 of Table 5 is not consistent with the prediction that

accommodativeness would be negatively related to a firm's future general reputation<sub>(t+1)</sub> for a financial violation. Instead, accommodativeness has a positive and statistically significant relationship with future general reputation<sub>(t+1)</sub> in the financial violation sample. The results do provide support for Hypothesis 6b. The coefficient reported in Model 8 of Table 6 for a firm's response strategy is negative and statistically significant with future general reputation<sub>(t+1)</sub>. A one-standard deviation increase in accommodativeness would increase the mean future general reputation<sub>(t+1)</sub> by over eight percent in the social violation sample.

In summary, Hypotheses 2a, 3a, 3b, 4a, 4b, 5a, 5b and 6b are supported. Hypotheses 1a, 1b, 2b and 6a are not supported. These results are summarized in Table 7.

**Table 7****Summary of Results**

Hypothesis	Predicted Relationship (Sample)	Findings	Supported?
Hypothesis 1a	Financial Rep <sub>(t-1)</sub> + Accomo (Financial Violation)	Not Significant	No
Hypothesis 1b	Financial Rep <sub>(t-1)</sub> - Accomo (Social Violation)	Significant in Wrong Direction	No
Hypothesis 2a	Accomo + Financial Rep <sub>(t+1)</sub> (Financial Violation)	$\beta = 0.053; p \leq 0.01$	Yes
Hypothesis 2b	Accomo - Financial Rep <sub>(t+1)</sub> (Social Violation)	Not Significant	No
Hypothesis 3a	Social Rep <sub>(t-1)</sub> + Accomo (Financial Violation)	$\beta = 1.710; p \leq 0.01$	Yes
Hypothesis 3b	Social Rep <sub>(t-1)</sub> + Accomo (Social Violation)	$\beta = 3.745; p \leq 0.01$	Yes
Hypothesis 4a	Accomo + Social Rep <sub>(t+1)</sub> (Financial Violation)	$\beta = 0.008; p \leq 0.01$	Yes
Hypothesis 4b	Accomo - Social Rep <sub>(t+1)</sub> (Social Violation)	$\beta = -0.069; p \leq 0.01$	Yes
Hypothesis 5a	General Rep <sub>(t-1)</sub> - Accomo (Financial Violation)	$\beta = -0.250; p \leq 0.01$	Yes
Hypothesis 5b	General Rep <sub>(t-1)</sub> - Accomo (Social Violation)	$\beta = -0.706; p \leq 0.01$	Yes
Hypothesis 6a	Accomo - General Rep <sub>(t+1)</sub> (Financial Violation)	Significant in Wrong Direction	No
Hypothesis 6b	Accomo - General Rep <sub>(t+1)</sub> (Social Violation)	$\beta = -0.101; p \leq 0.01$	Yes

## CHAPTER 6

### DISCUSSION & CONCLUSION

#### **Contributions**

With this study I make several contributions to organizational theory. First, I extend recent research that has begun to investigate the reputation repair process with an understanding that reputation is a complex and multifaceted construct (Rhee & Valdez, 2009; Zavyalova et al., 2012). Drawing from research in social cognition, I contribute by showing that a firm's multiple reputations can have conflicting relationships within the process of reputation repair. For example, the overall findings from the set of hypotheses investigating a firm's response strategy as an outcome suggest that a firm's multiple reputations influence the response strategy decision in different ways. General reputation encourages a more defensive strategy, at odds with financial and social reputation—both of which encourage more accommodativeness in either violation context. Thus, a firm's different reputations influence outcomes in different and sometimes competing ways. This suggests that researchers must be careful when investigating the outcomes of reputation. Steps taken to defend, build, or change one reputation may have unintended consequences on another reputation. The findings also imply that managers must make tough choices when repairing reputation, and might be forced to sacrifice one reputation in order to protect another.

Second, I also show that each reputation invokes a different frame to influence how stakeholders react to a violation. Stakeholders react differently to financial and social violations, largely depending on the nature of the violation and how it relates to the nature of the reputation

assessment. For example, increasing accommodativeness was positively related to social reputation in the financial violation context, but negatively related to social reputation in the social violation context. Interestingly, I also show that a firm's multiple reputations may conflict with themselves. For example, in a financial violation, the findings suggest that general reputation discourages accommodation, yet that accommodation positively influences future general reputation. A similar self-conflicting relationship is present for social reputation within a social violation context. A number of recent studies highlight the concept of cognitive conflict as firms attempt to manage external issues (cf. Bundy, Shropshire, & Buchholtz, 2013; Pratt & Foreman, 2000). The present study contributes to this stream of research by showing that the forces that internally motivate a certain response (for example, the desire to display social integrity by being accommodative) may actually serve to damage external perceptions along the same dimension.

Third, I make a theoretical contribution to research on reputation by identifying the unique sociocognitive aspects that differentiate specific from general reputations. I identify general reputation as a more heuristic and global assessment of the firm, which requires low information specificity and is largely de-coupled from a unique stakeholder group. Because the fundamental nature of these reputations differs, we might expect different relationships with outcome variables and different processes associated with reputation repair. This study confirms these differences, and in particular, that general reputation seems to have a consistent negative relationship with being accommodative.

I also contribute to research in reputation by developing and validating two unique measures of specific reputation. Research in reputation has long used measures of media tenor to represent general reputation (Deephouse, 2000). I extend this method by developing unique



dictionaries for a firm's specific and financial reputations. Future research could extend the logic of my measures to construct dictionaries for multiple types of specific reputation.

Finally, I also contribute to practice by investigating the motivations—beyond legal and financial justifications—for why a firm would choose to be more accommodative when responding to a violation. Research in crisis management has long attempted to provide practical guidance to managers concerning the most effective response strategy (cf. Coombs, 2007). My research shows that the effectiveness of a response strategy is a function of both the type of reputation being repaired and the context of the violation. Accommodativeness can be beneficial in certain situations for certain reputations, and harmful in other situations. Of course, this may raise some normative and ethical concerns for managers. My intention has been to theorize and examine how stakeholders' reactions influence the process of reputation repair. I do not intend for my results to be prescriptive, and instead have attempted to be descriptive in explaining the phenomenon under investigation. Responsibility of a violation is often a question of perception rather than fact (Gephart, 2007). Because of this, many scholars have begun to question the long-standing advice from public relations practitioners to “always be accommodative” (Coombs & Holladay, 2008; Koehn, 2013). My results are supportive of this questioning and show that accommodativeness, even when delivered with good intentions, can damage relationships and make reputation repair more difficult. In making managers and stakeholders aware of these potential outcomes, it is my hope that this research ultimately allows us to better understand the dynamic process that is reputation repair.

### **Limitations & Future Research Opportunities**

The hypotheses related to a firm's financial reputation<sub>(t-1)</sub> influencing its response strategy were not supported. Indeed, the results in the social violation sample ran counter to my

hypothesis: financial reputation actually encourages accommodativeness in a social violation, rather than discourages as I predicted. These findings were surprising, as each hypothesis had prior theoretical and empirical support. It may be the case that different financial and legal forces were at play to influence the outcomes. For example, research in crisis management has long recognized that firms are reluctant to be accommodative when there is potential for legal liability and future financial damages (Coombs, 2011). Thus, in the case of restatements, firms may have given in to these legal and financial pressures fearing that future consequences could emerge in the form of shareholder lawsuits. Because the EPA dataset involved civil settlements, it is possible that firms concerned with financial reputation no longer feared legal liability and were more willing to be accommodative. Thus, future research should attempt to compare and contrast the forces associated with legal liability and reputation when investigating a firm's response to a violation.

There are a number of additional opportunities for future research stemming from the findings of my study. For example, while I focus on how a firm repairs its multiple reputations in response to a violation, there remain many unanswered questions related to how these different reputations form and develop over time. Indeed, this study only scratches the surface for understanding the complex web of interdependencies associated with general and specific reputations. Which reputation develops first? How do the reputations interrelate? How much control does a firm have over the formation of each reputation? These are all important and unanswered questions related to a firm's reputational structure.

Consider an example. Apple has long enjoyed high levels of financial, social, and general reputation. However, it is not entirely clear which of these reputations developed first, nor is it clear which of these reputations is most influential on Apple's outcomes and under which

circumstances. Research in social psychology might be able to give us some insight. For example, research on the concept of organizational justice suggests that individuals understand justice as both an overall construct and as a set of more specific constructs based on contextual factors (cf. Ambrose & Schminke, 2009). In some circumstances, overall justice perceptions are more influential, while in other circumstances, the more specific forms of justice are more influential. Similar relationships are likely present in the context of reputation. Thus, I encourage future research to continue investigating the intricate dynamics of a firm's multiple reputations.

I controlled for the presence of a prior violation in my analyses, but I did not theorize on how a prior violation might influence a firm's response strategy and reputations as outcomes. I also did not consider spillover effects, or how a firm's response strategy and reputation might be influenced by a peer firm's violation and response. Recent research on toy recalls suggests that the violation dynamics within the industry influenced the effectiveness of different responses in managing media coverage and general reputation (Zavyalova et al., 2012). Future research may find interesting results when considering how industry dynamics might influence the different types of specific reputation and in different violation contexts. For example, the degree of industry malfeasance may dull the negative effect of accommodativeness on social reputation in a social violation as stakeholders become numb to the volume of violations (cf. Desai, 2011).

In addition to industry dynamics, there are many additional factors that affect how an organization repairs its multiple reputations after a violation, including: the magnitude of the violation, a firm's history of addressing violations, a firm's endowment of resources, the number and variance of stakeholder groups the violation affects, the number and variance of stakeholder groups that activate or deactivate as the conditions surrounding the violation evolve, the variance in how the violation is perceived, and so on. Theorizing on the role that moderators play in how

stakeholders perceive a violating firm, how a firm manages the violation, and the multifaceted nature of firm reputation would serve as important extensions of the current study.

I did not consider the role of time and how a response strategy influences reputation dynamically. It is possible that time could be an important factor in the effectiveness of an accommodative strategy. For example, while being accommodative may damage a firm's social reputation in the short-term, such a strategy may also serve to improve its social reputation over time, as stakeholders begin to appreciate the firm for taking responsibility for the violation. Incorporating time into an analysis of a firm's response to a violation is difficult, as decoupling the effect of the response strategy from other events experienced by the firm becomes more difficult as the amount of time between the event and the outcome increases. None the less, examining the role of time may shed additional light on the dynamics of reputation repair.

Finally, in measuring the three forms of firm reputation I relied only on the mainstream media, and did not consider the role of specific media outlets. It is possible that a media outlet dedicated to finance could be more influential to a firm's financial reputation than the general media. The same may be true for social reputation and the media dedicated to social concerns. Additionally, industry specific media outlets could also have a unique effect (cf. Petkova, Rindova, & Gupta, 2013). In measuring all of my reputation variables from the general media I relied on the rhetorical concept of heteroglossia, or the idea that one single piece of text can have multiple interpretations or "voices" according to how the perceiver interprets the text (cf. Morris, 2009). Just as a literary novel can have multiple interpretations, a news article can be understood according to a number of perspectives. For example, the news statement "Company X had positive growth and strong profit in Q3, but its emissions increased and several area residents complained" could be interpreted in a number of ways by the firm's stakeholders to influence its

multiple reputations. Stakeholders concerned with financial performance would likely react positively to the increasing growth and profit, and thus the firm's financial reputation is likely to increase. In contrast, stakeholders concerned with social performance may react negatively to the increased emissions, and thus the firm's social reputation may decrease. In terms of general reputation, the statement contains generally positive and negative information, so the firm's general reputation may not change. Thus, while our understanding of reputation repair might benefit from an increased focus on multiple media types, focusing on the general media can also shed important insight given the presence of heteroglossia.

## **Conclusion**

In conclusion, this study is one of the first to examine the complex nature of firm reputation and how the processes associated with managing multiple reputations influences firm outcomes. From an organizational perspective, an enhanced awareness of the trade-offs associated with a firm's reputations should enhance managers' ability to protect and repair these reputations when they are threatened. It should also reduce the tendency for automatic responses, which may have led to the counterintuitive findings related to financial reputation. From a stakeholder perspective, understanding how each reputation motivates reactions should allow stakeholders to understand potential biases when making judgments in response to a violation. For example, the results show that social reputation is actually damaged via an accommodative response, even though firms likely react with accommodation in order to convey fairness, trust, and justice. The findings here may incline stakeholders to be more accepting of accommodative strategies when making social reputation evaluations. Such consideration may result in more effective reputation management and potentially increased benefits for society as firms are inclined to act more proactively when responding to violations.

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## APPENDIX A

### REVIEW OF REPUTATION LITERATURE

Paper	Definition of Reputation (theory base)	Types or Components of Reputation	Sample & Measures
Mahon, 2002	<p>From Webster's dictionary (1983) – a reckoning, an estimation, from the Latin reputatus – to reckon, to count over. The estimation in which a person, thing, or action is held by others... whether favorable or unfavorable.”</p> <p>Highlights reputation as a judgment, dynamic, and expectational (built on the past)</p> <p>Concludes that “reputation is an asset in relation to (a) a specific context or process, (b) a specific issue, (c) specific stakeholders, and (d) expectations of organizational behavior based on past actions and situations.</p>	<p>Corporate reputation exists in two permeable marketplaces:</p> <p><b>Marketplace for goods and services</b> - defined by strategic competitive advantage in terms of market share, profitability, and return</p> <p><b>Marketplace of ideas</b> - defined by non-marketplace arenas in terms of public opinion, political and regulatory action, and social areas.</p>	Theoretical review.
Deephouse & Carter, 2005	A comparison of organizations to determine their relative standing (Social construction); a social comparison among organizations on a variety of attributes (virtually any attribute along which organizations may vary)	<p>Suggest that an unlimited number of reputations can exist for comparison. They chose two:</p> <p><b>Financial reputation</b></p> <p><b>Public reputation</b></p>	<p>Minnesota banks</p> <p>Financial reputation = asset quality</p> <p>Public reputation= Janis-Fadner (1965)</p> <p>Find that strategic isomorphism can help low reputation, hurt high reputation</p>

Paper	Definition of Reputation (theory base)	Types or Components of Reputation	Sample & Measures
Rindova et al., 2005	Stakeholders' perceptions about an organization's ability to create value relative to competitors (signaling; institutional)	<p><b>Perceived Quality</b> – the degree to which stakeholders evaluation an organization positively on a specific attribute, such as ability to produce quality products (signaling; economics)</p> <p><b>Prominence</b> – the degree to which an organization receives large-scale collective recognition in its organizational field (institutional; social construction/influence)</p>	<p>Sample – business school rankings and recruiter surveys</p> <p>PQ – recruiters' average ratings of BS (antecedents: inputs = GMAT; assets = faculty job exp (NS))</p> <p>Prominence – count of recruiter nominations of BS (antecedents: media rankings=school rankings; certifications=journal pubs; affiliations=faculty degree prestige) also PQ</p> <p>Outcome: price premiums starting salaries (PQ NS)</p>
Barnett, Jermier, & Lafferty, 2006	Observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time.	<p>A lexicological analysis of existing reputation definitions reveals three clusters:</p> <p><b>Awareness:</b> observers or stakeholders have a general awareness of a firm but do not make judgments about it</p> <p><b>Assessment:</b> observers or stakeholders were involved in an assessment of the status of a firm (judgment, estimate, evaluation, gauge, esteem, attractiveness, opinion, belief)</p> <p><b>Asset:</b> Reputation as something of value and significance to the firm (resources, consequences)</p>	Studied 49 unique definitions of 'corporate reputation' from 1965-2003
Rindova, Petkova, and Kotha, 2007	The collective knowledge about and regard for the firm in its organizational field (signaling theory and social construction)	<p>Reputation differs along four components. Each is accumulated through different processes (thus, reputation is a composite or formative construct), and ranked in the following order of value/importance:</p> <p><b>Esteem</b> – distinction and exemplification; a component of reputation reflecting the explicit distinction given to a firm by a given audience</p>	<p>Inductive case study examining the media coverage of new firms in emerging markets. The pattern of action leads to different patterns of media coverage based on four dimensions.</p> <p>Esteem – mentions of exemplification words such as</p>

Paper	Definition of Reputation (theory base)	Types or Components of Reputation	Sample & Measures
		<p><b>Favorability</b> – the extent to which the media frame interpretations about a firm in positive or negative terms</p> <p><b>Strategic Character</b> – content of media coverage; what a firm becomes known for; provides an answer to the question ‘reputation for what?’</p> <p><b>Visibility</b> – The level of awareness and exposure that a firm enjoys</p>	<p>‘example,’ ‘standard,’ or ‘pioneer’</p> <p>Favorability – positive/negative tenor of media coverage</p> <p>Strategic character – coded action type: new service development, product/marketing, customer relations, partnering, symbolic</p> <p>Visibility – count of articles</p>
Love & Kraatz, 2009	A subjective evaluation of a firm’s overall quality relative to its peers.	<p>Three separate interpretive frames (antecedents) used by stakeholders to judge reputation, not necessarily socio-cognitive dimensions:</p> <p><b>Organizational character</b> – perceived trustworthiness and reliability (old institutional, stakeholder, game theory, attribution, evolutionary psychology)</p> <p><b>Symbolic conformity</b> – conformity to cultural rules, norms, and beliefs that exist at the field level (neo institutional, symbolic interactionism)</p> <p><b>Technical efficacy</b> – delivery of outputs valued by audiences (products, services, financial performance) (utilitarian economics)</p>	<p>Downsizing</p> <p>Reputation = FMA</p> <p>Findings were consistent with character explanation (for main effects downsizing was negative on FMA); moderated by stock market reaction (higher performance lead to reduced effects on reputation), prior reputation (thus a buffering effect), and downsizing’s overall prevalence (time and changing cultural norms), suggesting that the other dimensions played some form of contextual role.</p>
Rhee & Valdez, 2009	The public’s affective evaluation of a firm’s name	<p>Take a “content-based” approach to reputation in that reputation is multifaceted because it can be based on multiple components within a competitive environment.</p> <p>However, they highlight that variation among organizations in the <i>relative (proportional)</i> effects of positive versus negative reputations, weighted for each dimensions importance to the firm. This suggests that</p>	<p>Theoretical</p> <p>Posit that in addition to the multiple dimensions of reputation, organizational age, market diversity, networks, and third-party infomedaries are important for reputation management.</p>

Paper	Definition of Reputation (theory base)	Types or Components of Reputation	Sample & Measures
		some sort of “combined”, “latent,” or “overall” measure of reputation might be appropriate.	
Boyd et al., 2010	“a general organizational attribute (Roberts & Dowling, 2002: 1078)” whose value is derived from interconnections of factors that lead to causal ambiguities, competitive advantage, and ultimately, performance superiority.	Reputation is a multidimensional <i>latent</i> construct composed of multiple indicators (although, Rindova argues that they are not indicators, but antecedents). Conceives of reputation as an intangible asset composed of internal factors and external perceptions. (RBV)	Used the same sample and measures as Rindova and found support for a <i>latent</i> reputation construction.  Prominence was modeled separately as a mediating variable between reputation and the outcome (although mediation was not directly tested).
Walker, 2010	A relatively stable, issue specific aggregate perceptual representation of a company’s past actions and future prospects compared against some standard	“Companies may have multiple reputations depending on which stakeholders and which issues are being looked at, but each reputation represents the aggregate perception of all stakeholders for that specific issue. That is, a corporation can have only one aggregate reputation for profitability, one for environmental responsibility, and so on.” (370) (social construction synthesizing institutional, signaling, and RBV views)	Review highlights five implications for reputation measurement: <ol style="list-style-type: none"> <li>1. Perceptual</li> <li>2. Aggregate and issue-specific</li> <li>3. Comparative (broadly and against many standards)</li> <li>4. Positive or negative</li> <li>5. Temporal</li> </ol>
Lange et al., 2011	No formal definition of reputation is given. One of many informal definitions is: “reputation consists of familiarity with the organization, beliefs about what to expect from the organization in the future, and impressions about the organization’s favorability”	<p><b>Being known</b> – familiarity with the organization; generalized awareness or visibility of the firm; prominence of the firm in the collective perception; the extent of awareness and knowledge of the organization (salience, visibility, cognitive field of view)</p> <p><b>Being known for something</b> – specific beliefs about what do expect from the organization in the future; perceived predictability of organizational outcomes and behavior relevant to specific audience interests; the level of confidence with which specific predictions about the organization’s future behavior and outputs are held(signaling)</p> <p><b>Generalized favorability-</b> impressions about the organization’s overall favorability; perceptions or</p>	Theoretical. Suggest that the three-dimensional conceptualization allows for a broad definition of the “social set”, ranging from a narrow definition (set of stakeholders, community, geography) to broadly defined (the general public).  Suggest that being known and generalized favorability can both be measured via media measures: being known as simple counts and GF as tenor (p. 166, 168).

Paper	Definition of Reputation (theory base)	Types or Components of Reputation	Sample & Measures
		judgments of the overall organization as good, attractive, and appropriate; the level of intensity with which favorable or unfavorable judgments of the overall organization are held (social construction/social psychology)	
Ponzi, Fombrun, & Gardberg, 2011  (Building from Fombrun & Shanley, 1990; Fombrun, 1996; Fombrun, Gardberg & Sever, 2000)	An intangible asset that provides a firm with sustainable competitive advantage in the marketplace / beliefs about companies' past actions that shape how stakeholders interact with them (signaling theory)	Conceive of reputation as a corporate association or overall impression rather than trying to measure all elements in the performance domain (p. 20). Two components:  <b>Emotional appeal:</b> 1) A good feeling about the company 2) Trust in the company 3) Admire and respect the company  <b>Overall Reputation</b>	RepTrak™ Pulse – a reflective latent construct with four indicators
Fombrun, 2012	A corporate reputation is a collective assessment of a company's attractiveness to a specific group of stakeholders relative to a reference group of companies which the company competes for resources	Reputation should always be defined in terms of a specific stakeholder group and a specific reference group. Thus, is infinitely multifaceted.  However, suggests that reputations are driven by two distinct stakeholder perceptions:  <b>Broad emotional appeal</b> /generalized emotional response/attractiveness (the answer to the question, what do you think of when you think about a company's reputation: good feeling, trust, admiration, respect)  <b>Domain-specific perceptions</b> of quality and value	Theoretical, although the RepTrak construct is highlighted.
Mishina et al., 2012	The collective, stakeholder group-specific assessment regarding an organization's capability to create value based on its characteristics and qualities (social construction/social	Stakeholders make two distinctions when judging an organization's favorability (perceived quality from Rindova et al., 2005; Rindova et al., 2007):  <b>Capability Reputation</b> – collective evaluations about	Theoretical.

Paper	Definition of Reputation (theory base)	Types or Components of Reputation	Sample & Measures
	psychology)	<p>the quality and performance characteristics of a particular firm. What an organization can do; its abilities and resources.</p> <p><b>Character Reputation</b> – collective judgments regarding a firm’s incentive structures and behavioral tendencies base on observations of its prior actions. What an organization would likely do; is goals and behavioral intentions.</p>	
Rindova & Martins, 2012	<p>No formal definition given. Stress that reputation can be understood as a strategic economic asset. They highlight three theoretical perspectives of reputation:</p> <p>Game-theoretic view: reputation as a signal</p> <p>Social-constructionist view: reputation as an amalgamation of collective perceptions</p> <p>Institutional view: reputation as a position in reputational rankings</p>	<p>Drawing from three perspectives of reputation they propose the following dimensions for reputation <i>as an asset</i>:</p> <p><b>Specificity</b>- the signaling value of a firm’s reputation with regard to its strategic character. The clarity and strength of a firm’s reputation for specific attributes valued by specific stakeholder groups</p> <p><b>Accumulation</b> – the firm’s level of visibility or prominence. The level of accumulation of reputation by a firm within its organizational field. Recognition and attention. Size of the audience, salience of the firm to that audience.</p> <p><b>Breadth of Appeal</b>- the degree of favorability of assessments among a broad set of stakeholders. The scope of applicability of the asset. The invariable heterogeneous perceptions that surround the firm. Generalized positive attitude.</p> <p><b>Codification</b> – the relative position assigned to the firm in reputational rankings created by third-party institutional intermediaries. The position of a firm in recognized reputational rankings.</p>	Theoretical, but recommend the use of configurational models including all or multiple dimensions of reputation.

## APPENDIX B

### REPUTATION VARIABLE DICTIONARIES <sup>a</sup>

Variable	Dictionary Words
Financial Reputation	accomplish*, achieve*, adept, advantage*, asset*, beneficial, capabilit*, compet*, creation, effective*, effic*, endowment, expert*, favorable, gain*, improv*, income, increase, invaluable, lucrative, make, market, merit, monetary, moneymaking, performance, proceeds, productive, proficiency, proficient, profit*, resource*, resourcefulness, return*, revenue*, reward*, strength*, superior, talent*, valuable, valuation, value, worth*
Social Reputation	accommo*, accountability, altruistic, authentic, believable, benevolence, big-hearted, broad-minded, charitable, chival*, citizenship, compassion*, conscien*, considerate, courage, creditability, CSR, decency, decent, dependability, devoted, duty, earnest, environmentally-responsible, equal, equitable, equity, ethic*, even-handed, fair*, faith*, fidelity, forthright*, fortitude, generous, genuine, golden, good-hearted, goodness, gracious* , helpful, helping, highly-respectable, high-minded, honest*, honor*, humane, humanitarian* , ideals, integrity, just, justice, justness, kind-hearted, magnanimous, moral*, munificent, noble, open, openness, philanthropic, piety, principle*, recycle, responsib*, right* , safety, scrup*, sensitivity, sincere, sincerity, socially-responsible, soft-hearted, standard*, straightforward*, tender*, tender-hearted, transparen*, triple-bottom, trust*, truth*, unequivocal, upright, uprightness, upstanding, values, values-based, virtue, virtuous, warm-hearted, well-meaning
General Reputation <sup>b</sup>	accept, accepta*, accepted, accepting, accepts, active*, admir*, ador*, advantag*, adventur*, affection*, agree, agreeab*, agreed, agreeing, agreement*, agrees, alright*, amaz*, amor*, amus*, aok, appreciat*, assur*, attachment*, attract*, award*, awesome, beaut*, beloved, benefit, benefits, benefitt*, benign*, best, better, bless*, bold*, bonus*, brave*, bright*, brilliant*, calm*, care, cared, carefree, careful*, cares, caring, casual, casually, certain*, challeng*, champ*, charm*, cheer*, cherish*, chuckl*, clever*, comed*, comfort*, commitment*, compliment*, confidence, confident, confidently, contented*, contentment, convinc*, cool, create*, cute*, cutie*, daring, darlin*, dear*, definite, definitely, delectabl*, delicate*, delicious*, deligh*, determina*, determined, digni*, divin*, dynam*, eager*, ease*, easie*, easily, easiness, easing, easy*, ecsta*, elegan*, encourag*, energ*, engag*, enjoy*,

Variable	Dictionary Words
	<p>entertain*, enthus*,excel*, excit*, fab, fabulous*, fantastic*, fearless*, festiv*, fiesta*, fine, flatter*, flawless*, flexib*, flirt*, fond, fondly, fondness, forgave, forgiv*, free, free*, freeb*, freed*, freeing, freely, freeness, freer, frees*, friend*, fun, funn*, gentle, gentler, gentlest, gently, giggl*, giver*, giving, glad, gladly, glamor*, glamour*, glori*, glory, good, gorgeous*, grace, graced, graceful*, graces, grand, grande*, gratef*, grati*, great, grin, grinn*, grins, ha, haha*, handsom*, happi*, happy, harmless*, harmon*, heartfelt, heartwarm*, heaven*, heh*, helper*, helps, hero*, hilarious, hoho*, hope, hoped, hopeful, hopefully, helpfulness, hopes, hoping, hug , hugg*, hugs, humor*, humour*, hurra*, importan*, impress*, improving, incentive*, innocen*, inspir*, intell*, interest*, invigor*, joke*, joking, joll*, joy*, keen*, kidding, kind, kindly, kindn*, kiss*, laidback, laugh*, libert*, like, likeab*, liked, likes, liking, livel*, LMAO, LOL, love, loved, lovely, lover*, loves, loving*, loyal*, luck, lucked, lucki*, lucks, lucky, madly, magnificent*, merr*, neat*, nice*, nurtur*, ok, okay, okays, oks, opportun*, optimal*, optimi*, original, outgoing, painl*, palatabl*, paradise, partie*, party*, passion*, peace*, perfect*, play, played, playful*, playing, plays, pleasant*, please*, pleasing, pleasur*, popular*, positiv*, prais*, precious*, prettie*, pretty, pride, privileg*, prize*, promis*, proud*, radian*, readiness, ready, reassur*, relax*, relief, reliev*, resolv*, respect , revigor*, rich*, ROFL, romanc*, romantic*, satisf*, save, scrumptious*, secur*, sentimental*, share, shared, shares, sharing, silli*, silly, smart*, smil*, sociab*, soulmate*, special, splend*, strong*, succeed*, success*, sunnier, sunniest, sunny, sunshin*, super, support, supported, supporter*, supporting, supportive*, supports, suprem*, sure*, surpris*, sweet, sweetheart*, sweetie*, sweetly, sweetness*, sweets, tehe, terrific*, thank, thanked, thankf*, thanks, thoughtful*, thrill*, toleran*, tranquil*, treasur*, treat, triumph*, true , trueness, truer, truest, truly, useful*, valued, valuing, vigor*, vigour*, vital*, warm*, wealth*, welcom*, win, winn*, wins, wisdom, wise*, won, wonderf*, worship*, worthwhile, wow*, yay, yays</p>
<p>Negative Financial Reputation</p>	<p>backward, collapse, defect, defici*, depletion, destruction, detriment, disadvantage*, disrepair, failure, fault, flaw, forfeiture, fruitless, futile, gainless, impairment, impote*, impoverishment, impracticable, inadeq*, inapt*, incapa*, incomp*, ineffect*, ineffic*, inept*, lack*, liability, loss, naught, profitless, ruin, stumbl*, stupidity, unable, unbeneficial, unfit* , unproductive, unprofitable, unrewarding, unsuccessful, useless*, valueless, wastage, waste, worthless, wreckage</p>
<p>Negative Social Reputation</p>	<p>abus*, adulterated, below-the-belt, betrayal, blight*, capricious, cheating, con, contaminat*, contriving, corrupt*, counterfeit, criminal*, crooked*, cryptic, debauched, deceit*, decept*, defil*, deprav*, desecrat*, destroy*, devious*, dirty, dishonest, dishonor*, disingenuous*, disreput*, dodging, double-dealing, dubious, duplicity, endangered, erratic, evasive, evil, fake, fals*, felonious, fraud*, guile*, half-hearted, hypocri*, illeg*, immoral*, inconsiderate, insidious, insincer*, irresponsib*, knav*, larceny,</p>



Variable	Dictionary Words
Negative General Reputation <sup>b</sup>	<p>litter, lying, Machiavellian, malfeasance, malpractice, misconduct, misleading, mismanaged, misuse*, nontransparent, perverted, phony, pollute, questionable, rascal*, reckless, scheming, secret*, self-centered, shady, shiftiness, shifty, sinful, sinister, slick, slippery, snaky, sneaky, spoil*, stealing, sullied, sully, swindle, taint*, tarn*, thievery, thievish, thoughtless, treachery, trick*, two-faced, unaccountable, unanswerable, unclean, uncompassionate, unconscionable, underhand*, undermined, under-the-law, under-the-table, unethical, unfair*, unjust, unprincipled, unrighteousness, unscrupulous*, unsportsmanlike, untransparent, untrustworthy, untruthful*, vacillating, vague, vicious, villainy, violat*, waste*, wicked*, wrong*</p> <p>abandon*, ache*, aching, advers*, afraid, aggravat*, aggress*, agitat*, agoniz*, agony, alarm*, alone, anger*, angr*, anguish*, annoy*, antagoni*, anxi*, apath*, appall*, apprehens*, argh*, argu*, arrogan*, asham*, assault*, asshole*, attack*, aversi*, avoid*, awful, awkward*, bad, bashful*, bastard*, battl*, beaten, bitch*, bitter*, blam*, bore*, boring, bother*, broke, brutal*, burden*, careless*, complain*, confront*, confus*, contempt*, contradic*, crap, crappy, craz*, cried, cries, critical, critici*, crude*, cruel*, crushed, cry, crying, cunt*, cut, cynic*, damag*, damn*, danger*, daze*, decay*, defect*, defenc*, defens*, degrad*, depress*, depriv*, despair*, desperat*, despis*, devastat*, devil*, difficult*, disagree*, disappoint*, disaster*, discomfort*, discourag*, disgust*, dishearten*, disillusion*, dislike, disliked, dislikes, disliking, dismay*, dissatisf*, distract*, distraught, distress*, distrust*, disturb*, domina*, doom*, dork*, doubt*, dread*, dull*, dumb*, dump*, dwell*, egotis*, embarrass*, emotional, empt*, enemy*, enemie*, enrag*, envie*, envious, envy*, excruciat*, exhaust*, fatal*, fatigu*, fear, feared, fearful*, fearing, fears, feroc*, feud*, fiery, fight*, fired, flunk*, foe*, fool*, forbid*, fought, frantic*, freak*, fright*, frustrat*, fuck, fucked*, fucker*, fuckin*, fucks, fume*, fuming, furious*, fury, geek*, gloom*, goddam*, gossip*, grave*, greed*, grief, griev*, grim*, gross*, grouch*, grr*, guilt*, harass*, harm, harmed, harmful*, harming, harms, hate, hated, hateful*, hater*, hates, hating, hatred, heartbreak*, heartbroke*, heartless*, hell, hellish, helpless*, hesita*, homesick*, hopeless*, horr*, hostil*, humiliat*, hurt*, idiot, ignor*, impatien*, impersonal, impolite*, indecis*, inferior*, inhib*, insecur*, insult*, interrup*, intimidat*, irrational*, irrita*, isolat*, jaded, jealous*, jerk, jerked, jerks, kill*, lame*, lazie*, lazy, liar*, lied, lies, lone*, longing*, lose, loser*, loses, losing, lost, lous*, low*, luckless*, ludicrous*, mad, maddening, madder, maddest, maniac*, masochis*, melanchol*, mess, messy, miser*, miss, missed, misses, missing, mistak*, mock, mocked, mocker*, mocking, mocks, molest*, mooch*, moodi*, moody, moron*, mourn*, murder*, nag*, nast*, needy, neglect*, nerd*, nervous*, neurotic*, numb*, obnoxious*, obsess*, offence*, offend*, offens*, outrag*, overwhelm*, pain, pained, painf*, paining, pains, panic*, paranoi*, pathetic*, peculiar*, pessimis*, petrif*, pettie*,</p>

Variable	Dictionary Words
	<p>petty*, phobi*, piss*, piti*, pity* , poison*, prejudic*, pressur*, prick*, problem*, protest, protested, protesting, puk*, punish*, rage*, raging, rancid*, rape*, raping, rapist*, rebel*, reek*, regret*, reject*, reluctant*, remorse*, repress*, resent*, resign*, restless*, revenge*, ridicul*, rigid*, risk*, rotten, rude*, sad, sadde*, sadly, sadness, sarcas*, savage*, scare*, scaring, scary, sceptic*, scream*, screw*, selfish*, serious, seriously, seriousness, severe*, shake*, shaki*, shaky, shame*, shit*, shock*, shook, shy*, sicken*, sin, sins, skeptic*, slut*, smother*, smug*, snob*, sob, sobbed, sobbing, sobs, solemn*, sorrow*, sorry, spite*, stammer*, stank, startl*, stench*, stink*, strain*, strange, stress*, struggl*, stubborn*, stunk, stunned, stuns, stutter*, submissive*, suck, sucked, sucker*, sucks, sucky, suffer, suffered, sufferer*, suffering, suffers, suspicio*, tantrum*, tears, teas*, temper, tempers, tense*, tensing, tension*, terribl*, terrified, terrifies, terrify, terrifying, terror*, thief, threat*, timid*, tortur*, tough*, traged*, tragic* , trauma*, trembl*, trick*, trite, trivi*, troubl*, turmoil, ugh, ugl*, unattractive, uncertain*, uncomfortabl*, uncontrol*, uneas*, unfortunate*, unfriendly, ungrateful*, unhapp*, unimportant, unimpress*, unkind, unlov*, unpleasant, unprotected, unsavo*, unsure*, unwelcom*, upset*, uptight*, vain, vanity, victim*, vile, violent*, vulnerab*, vulture*, war, warfare*, warred, warring, wars, weak*, weapon*, weep*, weird*, wept, whine*, whining, whore*, wimp*, witch, woe*, worr*, worse*, worst, yearn*</p>

<sup>a</sup> The asterisk symbol indicates a stem word, which allows for any target word that matches the letters before the symbol to be counted as a dictionary word.

<sup>b</sup> Modified from LIWC built-in dictionary, see Pennebaker et al., 2007.