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# CONTEXTUAL FACTORS SURROUNDING REPUTATION DAMAGE WITH POTENTIAL IMPLICATIONS FOR REPUTATION REPAIR

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**We explore the contextual factors surrounding reputation damage and their potential implications for reputation repair. We propose a model that examines how (1) the multidimensional property of reputation, (2) organizational age, (3) the diversity of market segments served by the organization, and (4) third parties influence a firm's perceived capability to cope with a reputation-damaging event and the external visibility of the event, which, in turn, determine the difficulty of the firm's reputation-repairing activities.**

Firms compete on numerous levels in order to maximize profits and mitigate future risks, with reputation being one of the most important ways firms can compete for economic resources and differentiate themselves from others in uncertain environments (Allen, 1984; Horner, 2002). International executives have reported on the importance of building and maintaining a good reputation for their company and for the sake of investors (Hill & Knowlton, Inc., 2004)—many executives electing to limit their strategic exploration in favor of maintaining a good reputation (Ely & Valimaki, 2003). In line with such practical imperatives, scholars in a variety of disciplines, including economics, marketing, accounting, and management, have emphasized the advantage and importance of building a good reputation, as well as various factors and processes underlying the creation and development of a good reputation (Tables 1 and 2 provide a broad overview of prior studies on reputation building across different disciplines).

Given that reputation is defined as the public's affective evaluation of a firm's name (Fombrun, 1996; Fombrun & Shanley, 1990),[1] the evaluation of the firm is not static once it is built; rather, it proceeds through the stages of reputation damage and repair. If a reputation-damaging event occurs, a firm's key stakeholders may react negatively toward the firm by lowering their quality of involvement, acting confrontationally toward management, demanding better contractual terms, and/or detaching from the firm. A firm with a damaged reputation has difficulty obtaining new clients and maintaining current ones (Wilson & Grimlund, 1990). The differential difficulty of reputation repair requires different management responses. Successful and unsuccessful management responses may, in turn, mitigate and aggravate damages to reputation (Hale, Dulek, & Hale, 2005).

It seems, however, that many scholars pay exclusive attention to the early stages (creation, building, and maintenance) of the reputation process and tend to believe that the early stages control the trajectory of later stages. This lesser

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[1] While many scholars take a social constructionist view (cf. Berger & Luckmann, 1967) in their definition of reputation, we recognize the distinction or at least a loose coupling between reputation (or perceived image) and reality. Our discussion in the paper is based on the assumption that although a firm's reputation is constructed by a variety of reality, reputation provides unique effects independent of the reality. We also suppose that the choice of realities underlying a reputation is conditioned by the research focus of scholars as discussed in our literature review.



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**TABLE 1**
**Summary of Prior Reputation Studies Across Disciplines: Advantages and Importance of Reputation**

| Discipline | Study | Model Context in Theory Paper (T)/ Sample in Empirical Paper (E) | Key Arguments and Findings |
|---|---|---|---|
| Economics | Klein & Leffler (1981) | Contractual performance (T) | Seller's reputation leads to higher price, which, in turn, contributes to enforcing the promised quality of goods or services |
| | Milgrom & Roberts (1982) | Entry deterrence (T) | Reputation provides protection against market entrants: "reputation enhances commitment power" |
| | Shapiro (1982) | Information and quality (T) | Seller's reputation increases sales and prevents deterioration of quality |
| | Barro, Gordon, & Page (1983) | Monetary policy (T) | Reputation can act as a surrogate to formal regulations |
| | Rogerson (1983) | Product quality (T) | Reputation leads to growth in the number of customers due to reduced defection of current customers and word-of-mouth advertising |
| | Shapiro (1983) | Premium price (T) | Reputation leads to lower costs and higher prices, which help compensate for investment in reputation |
| | Allen (1984) | Product quality (T) | Equilibrium role of reputation on quality and price in the competitive market where quality is unobservable |
| | Diamond (1989) | Debt market and contracts (T) | Value of a good reputation rises over time and provides incentives for firms to select less risky projects |
| | Diamond (1991) | Lending in the banking industry (T) | Reputation allows borrowers to issue debt without the monitoring of banks |
| | Banerjee & Duflo (2000) | Indian software industry—230 projects by 125 software firms (E) | Reputation is beneficial to ex ante contractual and ex post renegotiation outcomes |
| Marketing | Anderson & Weitz (1992) | Manufacturers (11 SBU from 5 Fortune 200 companies) and distributors (branch managers or small company owners) (E) | Distributors' commitment to channel relationship is positively associated with their perception of the manufacturers' reputation for fairness in channel relationships |
| | Chu & Chu (1994) | Signaling quality through retailer (T) | A retailer with a good brand reputation can achieve higher profits than a retailer with a lesser reputation; reputation provides retailers with incentive to properly represent quality of products |
| | Ganesan (1994) | Department store chain retailers (124 buyers from 8 retailers) and 52 vendors (E) | Reputation of a vendor is positively related to the retailers' perception of the vendor's credibility |

(Continued)

**TABLE 1**
**(Continued)**

| Discipline | Study | Model Context in Theory Paper (T)/ Sample in Empirical Paper (E) | Key Arguments and Findings |
|---|---|---|---|
| | Choi & Kim (1996) | Suppliers and customers in service industry (T) | Customers use reputation as a substitute for quality in determining their product and service selection |
| | Banks, Hutchinson, & Meyer (2002) | Bargaining situation in channels of distribution (T) | Seller's pricing strategies are influenced by the reputation of sellers and buyers, while buyers are not influenced by seller's reputation—everything a buyer needs to know about the seller is communicated in the price |
| Accounting | Deis & Giroux (1992) | 232 quality control reviews on small CPA accounting firms (E) | Reputation concerns positively affect and monitor the quality of audits |
| | Bandyopadhyay & Kao (2001) | 165 Ontario, Canada, municipalities and 6 auditors (E) | Firms with a better brand name reputation charge premium rates |
| | Francis, Reichelt, & Wang (2005) | Big Five audited companies; 3,994 companies from 63 industries; 3,045 companies from 52 different industries from 77 cities (E) | Auditor's ability to charge a premium rate is more likely to be affected by their city-specific reputation than national reputation |
| Management | Gatewood, Gowan, & Lautenschlager (1993) | Job seekers; 26 companies selected from 1990 Fortune 500 list and 13 companies selected from College Placement Council Annual organizations (E) | Reputation increases the attractiveness of the firm for prospective employees |
| | Dollinger, Golden, & Saxton (1997) | 170 MBAs and executive MBAs from a large public institution (E) | Reputation increases the attractiveness for partners and joint ventures |
| | Preston & O'Bannon (1997) | 67 large U.S. companies included in Fortune 500 lists over 1982–1992 (E) | Higher social performance leads to higher financial performance |
| | Turban & Greening (1997) | 189 companies selected from Fortune 500 and Kinder, Lydenberg, Domini & Co. (KLD) company profiles (E) | Corporate social performance increases the attractiveness of the firm for prospective employees |
| | Clark & Montgomery (1998) | Second-year MBA students from Stanford University (E) | Organization with a credible reputation for defending will protect the organization from minor competitors but not from major |
| | Ferguson, Deephouse, & Ferguson (2000) | 84 companies in the property/casualty segment of the U.S. insurance industry (E) | Reputation may be a mobility barrier beneficial to members of certain groups, leading to increased performance |
| | Shane & Cable (2002) | 136 U.S. seed-stage venture capitalists, 33 West Coast business angels, and 33 East Coast business angels (E) | Reputation increases the attractiveness of the firm for prospective funding sources and mitigates the effect of social ties |
| | Deutsch & Ross (2003) | New organizations' assignment of directors (T) | Outside directors' reputation affects the signaling quality of nonfinancial attributes to stakeholders |

**TABLE 2**
**Summary of Prior Reputation Studies Across Disciplines: Antecedents and Indicators of Reputation**

| Discipline | Study | Model Context in Theory Paper (T)/Sample in Empirical Paper (E) | Antecedents and Indicators |
|---|---|---|---|
| Economics | Diamond (1989) | Debt market and contracts (T) | Interest rates |
| | Diamond (1991) | Lending in the banking industry (T) | Interest rates and credit ratings |
| | Ely & Valimaki (2003) | Market for "credence goods"—context of auto mechanic (T) | Repeated contacts with customers and firms |
| Marketing | Chu & Chu (1994) | Signaling quality through retailer (T) | Posting the reputation of retailers signals the quality of manufacturers |
| | Yoo, Donthu, & Lee (2000) | Students at a major state university acting as buyers and consumers (E) | Brand loyalty (distribution strength and advertising spending), perceived quality (high prices, store image, distribution strength, advertising spending, and limited frequency of price reductions), and brand awareness/association (store image, distribution strength, advertising spending, and limited frequency of price reductions) |
| Accounting | Healy & Palepu (1993) | Financial disclosure (T) | Improve credibility of financial disclosures by choosing particular financing policies |
| | Chaney & Philipich (2002) | 284 Arthur Andersen Houston clients following Enron's admission of document shredding (E) | Affiliate's reputation as seen in the negative market reaction to Arthur Andersen's Houston clients |
| | Toms (2002) | *Management Today*'s most admired companies in the United Kingdom for 1996 and 1997 (E) | Implementation, observation, and reporting (e.g., in annual reports) of environmental policies; diverse institutional ownership and low systematic risk |
| Management | McGuire, Sundgren, & Schneeweis (1988) | Fortune 500 companies (E) | Prior firm financial performance (i.e., stock market returns and accounting-based measures [e.g., ROA]) were the best indicators of stakeholders' perceptions concerning a firm's social responsibility |
| | Gatewood, Gowan, & Lautenschlager (1993) | Job seekers; 26 companies selected from 1990 Fortune 500 list and 13 companies selected from College Placement Council Annual organizations (E) | Individual's familiarity with company via advertising, use of products and services, education, or work experience |
| | Dollinger, Golden, & Saxton (1997) | 170 MBAs and executive MBAs from a large public institution (E) | Product quality and innovation, management integrity, and financial soundness |
| | Preston & O'Bannon (1997) | 67 large U.S. companies included in Fortune 500 lists over 1982–1992 (E) | Financial performance (return on assets, equity, and investments) and social performance (community and environmental responsibility, ability |

(Continued)

**TABLE 2**
**(Continued)**

| Discipline | Study | Model Context in Theory Paper (T)/Sample in Empirical Paper (E) | Antecedents and Indicators |
|---|---|---|---|
| | | | to select and retain good people, and quality of products and services) |
| | Turban & Greening (1997) | 189 companies selected from Fortune 500 and Kinder, Lydenberg, Domini & Co. (KLD) company profiles (E) | Corporate social performance (community relations, employee relations, treatment of environment, and quality of services and products) |
| | Clark & Montgomery (1998) | Second-year MBA students from Stanford University (E) | Overall economic activity, consistency, and past performance |
| | Cable & Graham (2000) | Job seekers (E) • 14 upper-level undergraduate students in engineering and management from 2 Southeast universities • 66 undergraduate job seekers from 2 Southeast universities (engineering oriented and adult education in management) • 126 junior-, senior-, and master's-level job seekers from 2 Southeast universities (engineering and master's-level management) | Type of industry, opportunities for growth, company profitability, organizational familiarity, and organizational culture |
| | Ferguson, Deephouse, & Ferguson (2000) | 84 companies in the property/casualty segment of the U.S. insurance industry (E) | Dimensions of reputation perceptions of insurers differ even across different strategic groups within an industry |
| | Staw & Epstein (2000) | Executives and financial analysts; largest U.S. industrial corporations (E) | Firms that have good performance and have been associated with popular management techniques, such as TQM programs |
| | Certo (2003) | Initial public offering investors (E) | The prestige (human capital and social capital) of board members |

regard for the later stages has naturally left a discussion void regarding the difference between reputation building and reputation repair. We argue that although reputation building or creation shares several elements with reputation repair, the two processes operate in distinct ways in that reputation repair involves a reputation-damaging event and the *reactions* of the constituencies surrounding a firm's reputation to the event. On the one hand, a new firm creating its reputation begins with a blank slate and chooses the dimensions on which it will focus its reputation-building activities. The reputation building of a more established firm is influenced by the evolution of the firm's internal (e.g., strategy and structure) and external (e.g., competition and alliance) elements (Fombrun, 1996). On the other hand, reputation repair is conditioned by the ways in which those elements react to certain types or levels of reputation-damaging events. For example, the reputation repair of a firm that has a stock of

endorsements from third parties is shaped by how those third parties respond to its reputation-damaging event and by which choices the firm makes, as well as its organizational and historical contexts.

Although some researchers have explored the distinctive process of reputation repair, they have focused mainly on the characteristics of reputation-damaging events and/or management's response to those events (e.g., Coombs, 1998, 1999; Goldberg & Harzog, 1996; Hoffer, Pruit, & Reilly, 1994; Marcus & Goodman, 1991; Stevens, 1999). Thus, the majority of attention in most prior studies on reputation repair has been devoted to (1) categorizing the reputation-damaging events and examining their differential effects and (2) presenting effective repair strategies in response to such events. However, there is a distinct need for exploration of various organizational and environmental factors that facilitate or hinder management response after a given reputation-damaging event. This paper fills that gap by presenting a model of the contextual factors that affect the difficulty of reputation repair. In particular, we aim to explain reputational, organizational, and interorganizational factors that make firms more liable and/or susceptible to reputational damages and make repairing those damages more difficult. These factors have been considered in prior reputation studies, but mainly in the context of reputation building. We pursue an original attempt to explore the role of those factors in the context of reputation repair.

This paper begins with a review of the literature that examines the elements supporting a firm's reputation, because understanding the process of reputation damage should start with a diagnostic review of the buttress of a firm's current reputation (Fombrun, 1996).

## BACKGROUND LITERATURE

### Multidimensionality of Reputation

One noticeable finding from the multidisciplinary literature on reputation (see Tables 1 and 2) is that a firm's reputation involves a diverse array of dimensions and that different dimensions of reputation are attended to by different groups of stakeholders, including job seekers, investors, and financial analysts, as well as across different strategic groups. However, few scholars have provided an integrative framework that spans comprehensive dimensions of reputation. Charles Fombrun has played a leading role in establishing such a framework by emphasizing the multidimensionality of what constitutes and influences a firm's reputation. Fombrun and Shanley's (1990) seminal work provided a comprehensive model connecting reputation to financial factors (e.g., profitability, market value, and dividend yield) and nonfinancial factors, such as institutional (e.g., institutional ownership, social responsibility, and media visibility) and strategic (e.g., advertising intensity and diversification) factors. Their findings also indicated the importance of the information medium from which the public constructs and assesses reputation. They created an index of overall reputation from multiple dimensions in order to overcome the limitations of earlier studies and then examined how this reputation measure was influenced by the above financial and nonfinancial signals.

Because the reputation score in Fombrun and Shanley's study relied solely on executives' responses to the *Fortune* survey, they called for more extensive research on the multidimensional constituencies of reputation:

> Another direction for future research lies in better specifying the dimensionality of the construct: Do firms have one reputation or many? Do reputations significantly differ by either domain or audience? . . . A more extensive study of reputation might enrich our understanding of the construct by including other audiences with which firms interact, such as consumers and employees. Incorporating more domain-specific components might make it possible to distinguish central and peripheral influences on firms' reputations (1990: 254–255).

Later, Fombrun (1996) asserted that the multidimensional constituencies of firm reputation—what he called "reputational profiles"—derive from the multiple audience groups that have a relationship with the firm, including customer service relations, investor relations, employee relations, community relations, government relations, and public relations. He suggested that identifying each of the firm's key audience groups is the first step in conducting a "reputational audit." This approach helps us obtain unbiased reputation ratings of the firm on relevant dimensions. More recently, Fombrun and his colleagues (Fombrun, Gardberg, & Sever, 2000) proposed a theoretically developed model of

reputation determinants—"reputation quotient (RQ)"—which uncovers six central dimensions of corporate reputation: emotional appeal, products and services, financial performance, vision and leadership, workplace environment, and social responsibility. They found that these six dimensions affect stockholders' actions and the firm's profits, and such effects are different for each dimension. For example, a firm can be well known for making high-quality products and yet have a bad environmental reputation. Thus, consumers and the local community may rate a firm's reputation differently. Recently, Fombrun's emphasis on the multidimensionality of reputation has begun to obtain empirical support (e.g., Rindova, Williamson, Petkova, & Sever, 2005).

In sum, Fombrun's model of a firm's reputation provides a content-based classification of reputation, which emphasizes the multifaceted nature of reputation. Consequently, his model informs us about how the multiple audience groups assess the firm along different dimensions or contents. Fombrun's model does not distinguish between reputation building and repair but, rather, serves as a description of the complexity of reputation in general. As we consider the context of reputation repair, Fombrun's notion of multidimensional reputation factors will serve as the basis for our future discussion of the difficulty of reputation repair.

### Organizational Age

The potential relationship between organizational reputation and age stems from organizational ecologists' efforts to formulate the associations of organizational characteristics with status and identity. Building on previous organizational sociologists' (e.g., Perrow, 1986; Stinchcombe, 1965) work pointing out that time matters in building trust between organizations and environments, the liability-of-newness theory (Hannan & Freeman, 1984) argues that social selection processes favor older organizations because they have "reliability" and "accountability," thanks to repeated interactions with other organizations and environments. However, the increased reliability and accountability that come with maturity and age place a larger burden on established organizations to meet the expectations of stakeholders. Thus, stakeholders' amplified invested interest in the organization often causes older firms to be more inhibited than younger organizations (Sorensen & Stuart, 2000). For example, the increasing demands on and expectations for an old, established firm from mass media may make it difficult for the firm to maintain the attachments of its stakeholders, because unexpected behavior by the firm will incur strong reactions from the media.

### Diversity of Market Segments Served

In addition to organizational age, the diversity of market segments served by a firm also contributes to the construct of the firm's reputation. Diversity of market segments refers to the extent to which a firm serves different market segments, where the segments can be differentiated from each other based on distinct product attributes or specific customer demands. Organizational ecologists and economic sociologists have conceptualized the diversity of market segments as organizational niche width spanning the resource space in a market (Carroll, 1985). In their geometric model, Peli and Nooteboom (1999) interpret the resource space as consumer demand and the dimension of space as a dimension of taste preference. Their model shows how specialist firms focus on a particular market segment by using narrow resource space, whereas generalist firms compete in multiple segments based on the utilization of broad space. For example, Coca-Cola, a generalist, serves very diverse market segments within the nonalcoholic beverage market, whereas specialist firms (e.g., Maine Root Root Beer) have a more limited customer base. The correlation between niche width and the diversity of market segments is evidenced in many other industries, including the automotive industry (Dobrev & Kim, 2006), the brewing industry (Carroll & Swaminathan, 2000), and the film industry (Zuckerman & Kim, 2003).

In some recent studies researchers have engaged in research linking the diversity of market segments to organizational identity and reputation (Carroll, Dobrev, & Swaminathan, 2002). In their study of American beer brewing, for example, Carroll and Swaminathan (2000) found that small specialist breweries (microbreweries and brewpubs) remained successful even after large generalist breweries (mass production breweries and contract breweries)

learned to produce beers with a comparable or higher level of product quality. The authors attributed the success of specialist breweries to the appeal of specialists' identity as producers who use authentic production methods. Because of market norms about how specialty beer should be produced, consumers believe that specialist breweries have more expertise and capability in producing high-quality beers. To stakeholders, microbreweries express a narrower niche width and a more focused use of resources—in short, more specialization in creating and handling their product.

Similarly, the work of Zuckerman and his colleagues demonstrates that specialists will be more legitimate to and more highly valued by the market audience than generalists. In their study of the feature film industry, for instance, Zuckerman and Kim (2003) showed that specialization is favored, since films gain greater audience valuation when critics assign them to a single category. The disadvantage of generalism in an industry may also extend to the devaluation of diversification into other industries, given that the more diversified, the broader the market segments. For example, Zuckerman (2000) found that managers of diversified firms face pressure from analysts to dediversify, because straddling industry categories causes a firm to suffer from the discount of stock price. Given the mutually reinforcing forces between market value and reputation (Black, Carnes, & Richardson, 2000; Fombrun & Shanley, 1990), this finding evidences a high correlation between specialism and corporate reputation.

The above arguments suggest that a firm's specialization both within and across markets may also serve as an important organizational dimension underlying firm reputation or may provide a halo effect that strengthens the reputation perception. By targeting a narrower niche, specialized companies benefit from more tailored attention from experts and the public.

### Networks and Third Parties

The sociological network models of organizations and markets (cf. Shrum & Wuthnow, 1988) suggest that a firm's ties to specific groups, as well as its performance and organizational characteristics, are important determinants of reputation. The network concept of reputational status has been articulated and developed by Podolny and his colleagues. Podolny's (1993) status-based model of market competition posits that each firm's status depends on the status of its transaction or affiliation partners, and Podolny includes as evidence his study of the investment banking industry.[2] This model has been supported by subsequent studies within other industries—for example, the California wine industry (Benjamin & Podolny, 1999), British shipping cartels (Podolny & Scott Morton, 1999), and the semiconductor and biotech industries (Stuart, 2000; Stuart, Hoang, & Hybels, 1999).

The management literature has also provided theoretical and empirical support for the contribution of networks on status and reputation. Schoorman, Bazerman, and Atkin (1981) provided a theoretical mechanism of such contribution by suggesting that interlocking directorates increase a firm's reputation by reducing the uncertainty surrounding the firm. More recently, Deutsch and Ross (2003) showed that appointing highly regarded outside directors is also an example of increasing a firm's credibility through affiliation networks. The affiliation networks allow firms to distinguish themselves from competitors by "renting" the reputation of outside directors. In their study of U.S. business schools, Rindova et al. (2005) showed that an organization's affiliation with high-status actors increases its prominence in the minds of stakeholders, which, in turn, improves its reputation.

In addition to affiliation partners, the network approach emphasizes the role of third parties, such as media and rating agencies, as reputation endorsers. In many markets critics play an important role in providing a broadly accepted framework for the evaluation of product offerings (Hsu & Podolny, 2004). Thus, they may provide critical inputs into the creation and de-

[2] While Podolny used "reputation" and "status" interchangeably in his early research (e.g., Podolny, 1993), he recently attempted to distinguish reputation from status to emphasize the sociological and relational concept of status (e.g., Podolny, 2005). In order to make their studies immune to this definitional issue, many reputation scholars, with few exceptions (e.g., Washington & Zajac, 2005), tend to discuss the two concepts interchangeably (e.g., Porac, Ventresca, & Mishina, 2002; Rindova, Pollock, & Hayward, 2006; Rindova et al., 2005) by considering status at least a strong correlate of reputation or a dimension that stabilizes reputation ordering. We also follow their view on the relationships between reputation and status. Moreover, our propositions are not influenced by such a distinction.

struction of an organization's reputation. An increase in a firm's visibility through positive coverage by the mass media can help the firm achieve a good reputation by strengthening its identity (Peteraf & Shanley, 1997).

Evidence of the importance of a third-party role has been provided by many organizational sociologists (cf. Hsu & Podolny, 2004), but researchers in other disciplines have also considered such roles. For example, scholars in diverse disciplines have proposed that receiving good-quality ratings and winning certification contests from popular rating agencies and mass media outlets enable firms to acquire a reputation for excellence in most industries (Banerjee & Duflo, 2000; Rao, 1994; Rhee & Haunschild, 2006; Rindova et al., 2005). They also have found that the amount of freely accessible information regarding a firm's activities through the media adds legitimacy to the firm and helps construct a good reputation, which affects consumer decisions and behaviors (Castellucci, 2002; Pollock & Rindova, 2003). A ripple effect that occurs with auditor failure, as shown in the Enron case, also implies the importance of third parties as a credentialing device (Chaney & Philipich, 2002).

The reputation perceptions derived from network affiliations and third parties deserve particular attention because they may cushion reputation-damaging events. As evidenced by research on resilience, a firm's good relational reserve established with the outside community can help the firm easily bounce back from untoward events (Gittell, Cameron, Lim, & Rivas, 2006; Masten, 2001). For example, when a firm has an established reputation and network yet is involved in a damaging event, its third parties may validate the firm by redirecting attention to positive, nondamaged dimensions or by devaluing the dimensions that were targeted by the damaging event. In any case, it is intriguing to examine how those endorsers of a firm's reputation adjust their endorsement in response to a reputation-damaging event.

## THE MODEL: FACTORS AFFECTING THE DIFFICULTY OF REPUTATION REPAIR

In the previous sections we discussed reputation multidimensionality, organizational age, the diversity of market segments, and third-party affiliations as factors that influence reputation perceptions. In this section we discuss these elements as they contribute to the context that influences the difficulty of reputation repair. Again, the characteristics of reputation-damaging events and management responses are beyond our goals for this paper, although we later discuss those issues as future research opportunities. We instead offer a framework of contextual factors affecting the difficulty of repairing the damages, or the factors that may moderate the impact of a damaging event on a firm's reputation.

Our theoretical review of the antecedents and correlates of a firm's reputation leads us to parse the dynamics of an organization's reputation from four types of factors considered by external audiences.[3] First, we explore the influence that the multidimensional property of reputation perception has on the difficulty of repairing organizational reputation. Specifically, we focus on how the difficulty of repairing a reputation is affected by the relative strength (or number) of positive versus negative dimensions buttressing a firm's reputation perceptions and the relevance of a firm's positive reputations to the reputation-damaging event. Second, we propose that organizational age is related to reputational perceptions through external visibility. Third, we show how the diversity of served market segments also affects the extent of challenges organizations face in response to reputation-damaging events. Fourth, we present the mechanism by which network partners and third parties influence the difficulty that a firm undergoes in repairing its reputation. We suggest that third-party evaluations of reputation-damaging events will increase or decrease the difficulty in overcoming the events, because third parties affect the market audiences' perception of a firm's reputation subsequent to its reputation-damaging events.

In order to predict the independent effects of those four factors, we postulate that they determine perceived organizational capability and external visibility, which, in turn, affect the difficulty of repairing damaged reputation. In our model organizational capability refers to stakeholders' perceptions of organizational capacity

[3] We believe that the process of reputation repair involves different components from the process of reputation building. Future studies need to examine which aspects of reputation repair are decoupled from the antecedents and correlates of reputation perception.

to cope with a reputation-damaging event. This capability can be considered in terms of organizational resilience in times of crisis or organizational capacity to recover successfully after crisis (Gittell et al., 2006; Masten, 2001). Thus, stakeholders' perceptions of a firm's capability will consist of perceptions concerning the firm's ability to deploy its resources in order to successfully manage a reputation-damaging event (cf. Marcus & Nichols, 1999). It is likely, for example, that a greater perceived capability will boost stakeholders' trust in the firm's ability to cope with reputation-damaging events. If stakeholders display confidence, this will make market audiences less sensitive to or critical of the damaging events, allowing the firm to more easily overcome the reputation-damaging events. Certainly, other variables may contribute to organizational capability (i.e., internal efforts), but the focus of our model on external components of reputation repair necessitates the concept of *perceived* capability.

Complementary with perceptions of capability, the external visibility of a firm can strengthen or lessen the difficulty of reputation repair. In examining the contextual factors surrounding the difficulty of reputation repair, we are interested in the visibility of a firm and its reputation-damaging events to external groups, including stakeholders and other market audiences. Rindova et al. (2006) have proposed that the media serve as a type of general intermediary, affecting the perceptions of market audience by influencing the extent to which a firm's scandalous, "nonconforming" behaviors are reported. For example, recent studies on product recalls in the automotive industry provide evidence that the media are more likely to spotlight voluntary recalls and recalls by good reputation automakers than involuntary recalls and recalls by poor reputation automakers, respectively, resulting in differential market damages to automakers (e.g., reduction in market share; Haunschild & Rhee, 2004; Rhee & Haunschild, 2006). These studies suggest that a firm's external visibility may determine the extent to which market audiences criticize and devalue the firm following reputation-damaging events. Thus, it may impact the level of reputation repair difficulty by affecting the extent to which information on reputation-damaging events is exposed to and scrutinized by market audiences.

Therefore, our model explores how the above four factors are related to perceived organizational capability and external visibility, which help or impede the repair of damaged reputation. This model is illustrated in Figure 1.

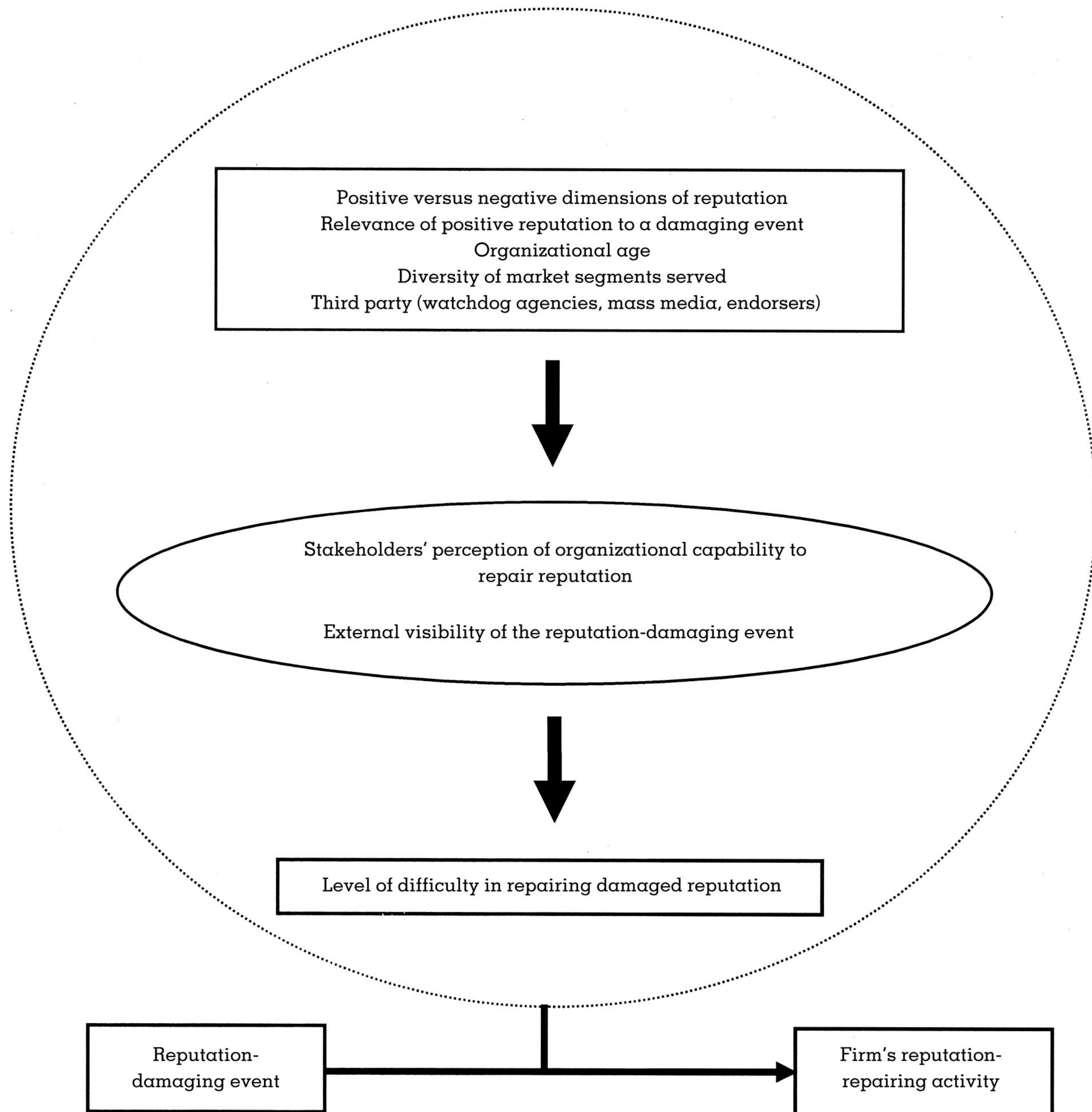
Although the characteristics of reputation-damaging events (severity, frequency, and type of event) certainly contribute to variation in the resulting damages (Coombs, 1998; Marcus & Goodman, 1991; Hoffer et al., 1994), our model examines variation given the same event. For example, two firms may experience the same negative event, but the damage done to their reputation may be different because of the different contextual factors surrounding the firms. These contextual factors, not the characteristics of the event, are the concern in our model. We also do not take a firm's crisis management into consideration, yet our model has important implications for a firm's crisis management given that different levels of difficulty in repairing reputation require different types of crisis strategies.[4] Furthermore, we recognize the heterogeneity of stakeholders—each stakeholder group may have a different contribution to perceived capability and external visibility. It is possible that certain groups of stakeholders play a more significant role in an organization's perceived ability to manage and repair its damaged reputation. While our present model does not specify stakeholder groups and does not examine each group's unique role, the heterogeneous nature and impact of stakeholders needs to be incorporated into a more comprehensive model (see our later discussion in the "Complete Model" section).

### Implications of Multidimensionality of Reputation

**Positive versus negative dimensions of reputation.** Our literature review shows that a firm's reputation is multidimensional because it can be based on multiple organizational and interorganizational components within a competitive environment. This line of reasoning implies the

[4] We briefly discuss the characteristics of reputation-damaging events and management response, as well as the implication of our model for those elements, at the end of the article.

**FIGURE 1**
**Model of Repairing Damages to Reputation**




Note: The process in the circle represents the main focus of the paper.

need for a content-based approach to reputation in that some dimensions (or contents) provide a firm with a positive reputation and other dimensions lead to a negative reputation for the firm. Built on a cost-benefit analysis, firms strive to establish positive reputations in some dimensions (e.g., price) at the cost of negative reputations in others (e.g., reliability). The content-based approach also suggests that each dimension garners different levels of attention, depending on the value and interests of stakeholder groups (e.g., analysts, customers, employees). For example, Costco may have a positive reputation for consumers in terms of pricing and

product quality but a negative reputation for shareholders due to a stagnant stock price.[5]

This content-based approach to reputation further suggests that there is variation among organizations in the relative (proportional) effects of positive versus negative reputations. For example, Toyota's reputation is built on many positive dimensions, including product quality, human resource management, environmental management, organizational culture, and a lean production system, which has led to "the Toyota way" (Liker, 2004); it has few negative dimensions. Thus, Toyota may benefit from the stronger effects of positive dimensions over negative dimensions. In contrast, Porsche mainly uses consumers' conspicuous consumption to establish its reputation and has few positive dimensions. Rather, it is surrounded by some negative reputational dimensions, including product reliability and safety. Thus, Porsche can be considered to possess more negative dimensions relative to positive dimensions.

We can assume that organizations spanning many positive dimensions yet few negative dimensions will have an easier time repairing a damaged reputation because they have a greater capacity to buffer the damage. Positive reputations in multiple dimensions indicate a higher level of a firm's overall—not skewed—capability (Fombrun, 1996), which may, in turn, positively affect audience perceptions of firm capability in response to a reputation-damaging event.

We suggest that damages to some dimensions of a firm's reputation can be offset by positive reputations achieved in many other dimensions. When Toyota reveals product defects, for example, consumers might regard those defects as minor mistakes rather than fundamental technological problems because they might believe that Toyota's zero-defects culture and manufacturing system will effectively resolve the defects. This idea also explains how Johnson & Johnson's immediate recall (in 1982 and 1986) of all Tylenol inventories in response to the death of one person after ingesting the drug helped redeem consumer trust. Johnson & Johnson had already established many positive reputational dimensions, including its marketing activity, consumer relations, and personnel management. Stakeholders may believe that such multiple positive dimensions will be used to effectively absorb and respond to a crisis.

However, stakeholders may have perceptions of the dimensions that are fundamental to a company and those that have secondary or lower importance. For example, multiple lowly ranked negative reputational dimensions may be offset by a single highly ranked positive dimension. With a consideration of stakeholders' perceptions of the relative weights for dimensions, we suggest the following.

> *Proposition 1: A higher-weighted proportion of positive to negative reputation dimensions increases stakeholders' perceptions of an organization's capability to repair its reputation and, thus, makes reputation repair easier.*

**Relevance of positive reputation to a damaging event.** Another factor affecting a firm's ability to repair its reputation that derives from the multidimensionality of reputation is the relative relevance of the positive dimensions of the firm's reputation to the dimensions surrounding the reputation-damaging events. There exist not only multiple dimensions underlying a firm's reputation but also multiple dimensions that can damage its reputation. We posit that a firm's difficulty in repairing its damaged reputation is related to whether the reputation-damaging events are directly relevant to the firm's positive reputational dimensions. In particular, when a damaging event is closely related to a firm's positive dimensions, the firm incurs greater external visibility and, therefore, greater damage to its reputation.

From the perspective of external organizational visibility, we suggest that the more related the two dimensions, the more difficult it is to repair a damaged reputation. Public attention to external events is not equally distributed, in that some events are more critical triggers of attention than others (Hoffman & Ocasio, 2001). Prominence is an obvious attention trigger (Tversky & Kahneman, 1974), and, thus, market audiences are likely to pay more attention to a prominent target or set of events. According to expectancy violation theory (Burgoon, 1978), events that violate previous expectations are more salient and garner more attention from the

[5] Here we use the terms *positive reputation* and *negative reputation* for convenience, but they should be conceptualized not as an absolute, dichotomous reputational evaluation but, rather, as a relative, nonbinary evaluation.

audience. Given that a positive reputation conferred on a firm's particular activity enhances audiences' expectations that the firm will produce high performance in that activity (Berger, Fisek, Norman, & Wagner, 1985), we suggest that the firm's faults in that specific activity more likely will be perceived as a violation of audience expectation (Bansal & Clelland, 2004; Simonson & Tversky, 1992) and will attract more public attention.

For example, Toyota announced forty product recalls over the 1995–1999 period, while Porsche announced fifty product recalls (see Haunschild & Rhee, 2004: 1551). Our Lexis/Nexis search of the major U.S. newspapers over that time period showed that the Toyota recalls were reported 249 times, whereas the Porsche recalls were reported only 64 times. This disproportionate media coverage for product recalls, even after controlling for their sales units (cf. Rhee & Haunschild, 2006), may be explained partly, if not solely, by the fact that product defects of Toyota cars are more likely to be regarded as a violation of market expectation and, thus, to receive more attention from the media and the public. In contrast, market audiences do not care as much about the product defects of Porsche cars because product reliability is not the major positive reputation dimension of Porsche; rather, Porsche is admired mainly for the social status it confers. Rhee and Haunschild (2006) provide evidence of Toyota's greater vulnerability to the scrutiny of mass media by showing that Toyota is more likely than Porsche to be damaged by the announcement of product recalls. This vulnerability is also illustrated in our interviews with a senior manager from Toyota's external relations office in Japan in January 2005 and December 2005[6]:

> Every year we receive enormous attention from outsiders. For example, case writers from the Harvard Business School and IMVP [International Motor Vehicle Program] at MIT have visited us many times to understand the mechanisms underlying our high product quality. Our competitors, such as Hyundai and GM, have shown their wish to benchmark our production system. Journalists also approach us to know our "magic" in making the most reliable car. . . . We believe that we have successfully built a great reputation in product reliability. . . . But this is not always good. Whenever our cars reveal product defects, we have to bear with annoying investigations from those audience groups. It seems that scholars are excited to find out defects in a zero-defects company whereas newspaper reporters are occupied in exaggerating our errors. . . . This gives us a very tough job. Sometimes we have to spend unscheduled financial resources to protect our reputation, and even switch financial reserves from other departments to the external relations department. It is hard but necessary because product reliability is the life of Toyota (original in Japanese).

The preceding discussion can be summarized in the following proposition.

> *Proposition 2: The greater the relevance of a damaging event to a firm's positive dimensions, the greater the external visibility of the event and, thus, the more difficult it is for the organization to repair its reputation.*

### Organizational Age

Our literature review also demonstrates that organizational age contributes to reputation because it increases the perceived accountability and reliability of organizations. This leads us to predict an expectancy violation effect, which is independent of the effects discussed in prior propositions: the reputation-damaging events of older organizations are perceived as a breakup or disturbance of their accountability and reliability, thus providing highly notable information to the public. In contrast, the violations of commercial laws by high-tech start-ups, such as their infringements of intellectual property rights, tend to be immune from public criticism. This is not only because it takes time for start-ups to be visible to the public but also because the public's main expectation for start-ups is innovative performance, rather than the moral accountability or reliability expected of older firms. The high expectations of accountability and reliability for mature organizations give prominence to their errors, while a long-established reputation places a burden on the organizations, as shown in an excerpt from *The Economist:*

> Following a bribery scandal in May involving FDA [Federal Drug Administration] employees, even the agency's integrity has been questioned. . . . The FDA is also being forced to take on responsibilities that go well beyond its original terms of reference, further compromising its long-

[6] We provide selected quotes from these two interviews.

established reputation as an objective arbiter of scientific evidence (1989: 60–61).

The above discussion suggests the following.[7]

*Proposition 3: A firm's age increases the external visibility of a reputation-damaging event, which, in turn, makes reputation repair more difficult.*

### Diversity of Market Segments Served

The diversity of market segments served is another contributing factor in the external context of reputation repair. We suggest that the diversity of market segments served by a firm affects stakeholders' perceptions of the firm's capability to handle reputation-damaging events. Empirical findings (e.g., Carroll & Swaminathan, 2000; Zuckerman & Kim, 2003) on the positive role of specialism in facilitating reputation perceptions might imply that specialism leads a market audience to perceive a firm's faults as "bad luck" rather than as fundamental problems. Rhee and Haunschild (2006) found, for example, that automakers occupying a narrow niche are more likely than generalist automakers to buffer the damages to market share from their product defects. Audiences may perceive specialist firms to have a higher level of specialty in damage repair (i.e., responding, analyzing, managing, and overcoming) because the firms also have accumulated specialized experiences in damage repair.

*Proposition 4: The diversity of market segments served by a firm decreases stakeholders' confidence in the firm's capability to repair its reputation and, thus, makes reputation repair more difficult.*

The diversity of market segments served by a firm also may augment the difficulty of reputation repair by increasing the external visibility of its faults. Because the greater diversity of market segments served indicates broader audience groups, the generalist organizations that serve diverse consumer demands will more likely encounter criticisms from diverse groups and will need to decentralize their crisis management activities (Hoskisson & Hitt, 1994). In particular, a firm that operates in multiple market sectors may face a situation where its faults in just one market sector initiate a domino effect, leading audiences in other market sectors to also question the firm's other activities. Thus, the firm is required to cope with various challenges imposed by broader, more diverse market audiences. This effect is evidenced in our interview with a COO of Hyundai Motor America in Fountain Valley, California, in December 2005:

> We estimate that General Motors has to spend at least five times more than we [Hyundai] to resolve a variety of challenges and problems in response to a comparable product recall. For instance, when GM announces product recalls due to severe product defects in their small-size-car segment of the Saturn make, they should be prepared for enormous doubts and scrutiny from consumers of Saturn's medium-size-, large-size-, and luxury car segments, and even from consumers of other GM makes, such as Buick and Chevy. Worse, these challenges are issued not only by consumers but also by other stakeholder groups of each market segment and make. . . . GM has wide visibility in the market, so its errors are vulnerable to wide market audiences. They need a lot of money to dispel the doubts of those audiences. But we have less difficulty in meeting post-recall challenges because we have a focused market segment and only one sister make [Kia] (original in Korean).

The above discussion leads to the following proposition.

*Proposition 5: The diversity of market segments served by a firm increases the external visibility of reputation-damaging events and, thus, makes reputation repair more difficult.*

### The Role of Third Parties

The importance of third parties in establishing a good reputation is also relevant to the difficulty firms may encounter following a reputation-damaging event. Since market audiences, particularly the public, have limited access to information on a firm's reputation-damaging events, there may be a mismatch between the actual severity of the events and the audiences' perception of them. This mismatch results in excessive or inadequate reac-

[7] We do not provide a proposition on how age affects a firm's perceived capability to repair its reputation, because existing literature suggests conflicting arguments regarding this relationship.

tions to the reputation-damaging events from both firms and market audiences (Dutton & Dukerich, 1991). In order to reduce uncertainty around reputation-damaging events, market audiences rely mainly on a special group of alternative market audiences, or third parties, which are deemed to have access to detailed information on the events and are judged reliable. A firm's third parties are categorized into three different types of groups: watchdog agencies, mass media, and endorsers. Each of these groups relays different kinds of information about the events to the public and affects the perceived capability to repair damages and the visibility of reputation-damaging events in different ways.

**Watchdog agencies.** The first group consists of watchdog agencies that diagnose and scrutinize the firm. A representative example is the governmental supervisory organizations designed to look into firms and their products or operations in each industry, including the FDA in the food and drug industry, the NHTSA (National Highway Traffic Safety Administration) in the automotive industry, the FAA (Federal Aviation Administration) in the airline industry, and the SEC (Securities and Exchange Commission) for all public firms. These organizations require firms to provide products or services that meet federally determined standards. Those firms whose products or services are deemed not in compliance with the standards are subject to greater scrutiny and punishment, such as product recalls, suspension of operation, and imposition of fines. Although watchdog agencies are supposed to be objective and reliable in regulating firms, they often compromise their mission for political or financial reasons. For example:

> In the mid-1980s, politically astute lobbying groups representing AIDS sufferers forced through fundamental changes within the FDA. . . . AIDS activists also enjoy unprecedented access to FDA officials. . . . under public and financial pressures, Congress has passed laws that require the FDA to get involved in a still wider sphere of activities. . . . There is also a growing distrust between the industry and the agency. It was private detectives hired by a drug company who uncovered the bribing of FDA officials (*The Economist,* 1989: 60–61).

This indicates that firms may also lobby against scrutiny or punishments by the agencies in order to decrease direct costs (e.g., fine, compensation to consumers, and downgrading firm's credibility) and decrease the visibility of their faults. As an indirect illustration, the NHTSA exercises less punishment and scrutiny over automakers' product defects during Republican administrations than during Democratic ones (Bromiley & Marcus, 1989; Haunschild & Rhee, 2004). Given the potentially partisan nature of watchdog agencies, their decisions regarding companies can impact those companies' difficulty in repairing reputation.

*Proposition 6: The more prevalent and severe watchdog agencies' negative reactions (e.g., scrutiny and punishments) are to a firm's reputation-damaging events, the more visible the events are to stakeholders and, thus, the more difficult it is for the organization to repair its reputation.*

**Mass media.** The second type of third-party group is the mass media. Whenever firms are involved in reputation-damaging events, a primary challenge is to minimize the diffusion of news about the events. The mass media may have one of the strongest effects on the difficulty in repairing damages to reputation, because the effect most directly links public visibility with reputation-damaging events. The media sometimes even deal a firm a more severe blow than it deserves, as shown with the treatment of the majority of Enron employees who were innocent. Although a very small number of high-ranking Enron officers mismanaged the company's finances, almost all employees faced "vilification in the media" and were "referred to in the national media and elsewhere as a kind of pariah" (*The Guardian,* 2004). In particular, as with the effect of media on reputation building (Fombrun, 1996; Pollock & Rindova, 2003), reporting on reputation-damaging events by reliable, prestigious media is more likely to expand visibility. For example, when NBC aired a video of a GM pickup truck bursting into flames after a collision in 1993 (a video that later turned out to be falsified), the immediate nature of GM's counterattack may have been directly related to a fear of NBC's established credibility and formidable coverage.

*Proposition 7: The more prestigious the media outlet reporting a firm's reputation-damaging events, the more visible the events are to the pub-*

> *lic and, thus, the more difficult it is for the organization to repair its reputation.*

**Endorsers.** Finally, a third-party organization that has endorsed a firm and contributed to its reputation building prior to a damaging event also affects the difficulty of repairing damages to reputation. A firm's prominence or reputation is based on a variety of endorsers, including alliance partners; rating agencies—for example, *Consumer Reports*; auditing agencies; and certificate-granting agencies—for example, the International Organization for Standardization (Rindova et al., 2005). When a firm admits to its bad behavior, the public often pays keen attention to any change in the third parties' endorsement behavior. If the third parties withdraw their endorsement for the firm's products or services in some way (e.g., breakup of alliance and downgrading of ratings), the public will perceive the events as very serious. Most often, however, third parties will not pull their endorsement after a firm experiences a damaging event for two reasons, helping to increase stakeholders' perceptions of the firm's capability to repair its reputation.

First, interorganizational ties change very slowly because of inertia (Kim, Oh, & Swaminathan, 2006). Thus, stakeholders' perceptions of a firm's quality may not be updated instantly after the damaging event. Second, third parties may be trapped in the "escalation phenomenon"—the tendency to adhere to a course of action, even in the face of negative information concerning that course's viability (Staw, 1981). That is, third parties may escalate commitment to their endorsement of a firm's reputation following receipt of negative feedback. These commitment effects on prior endorsement have been demonstrated in several contexts and across many populations of third parties. The auditing field provides an example. A series of studies (Brody & Kaplan, 1996; Church & Schneider, 1993; Messier & Quilliam, 1992; Tan, 1995) showed that internal and external auditors who have been involved in prior auditing decisions engage in escalation behavior for fear of damage to their self-image and are, thus, reluctant to change their earlier evaluations. Relating Arthur Andersen's continuous endorsement of Enron's accounting procedures, Moore, Tetlock, Tanlu, and Bazerman state:

> The following year, the auditor might endorse accounting that clearly violates GAAP [generally accepted accounting principles] in order to avoid admitting the errors of the past two years, in the hope that the client will fix the problem before the next year's audit (2006: 17).

Endorsement biases may also come into play in another way. In the case of a reputation-damaging event for a firm with a previously solid reputation, third parties are likely to ignore or distort the scandal, or to attribute it to temporary causes since it violates their preexisting beliefs (Fiske & Taylor, 1991). A result is that their evaluations of firms with a good reputation will be overly biased. This will lead market audiences to be less sensitive to the reputation-damaging events of the firm.

> *Proposition 8: Endorsers' persistent support of a firm after its reputation-damaging event increases stakeholders' perceptions of the firm's capability to repair its reputation, thus making reputation repair easier.*

## CONCLUSION AND DISCUSSION

In this paper we make two major contributions to the reputation literature. First, unlike most of the previous research investigating the economic or social advantages and the underlying components of a good reputation, we direct researchers' attention to the crucial yet long overlooked contextual questions surrounding the damage and repair of organizational reputation. In particular, given the growing number of long-established prestigious firms suffering from reputation damage due to the advancement in social surveillance systems, an examination of factors affecting the difficulty of repairing damages to firm reputation after a reputation-damaging event seems quite necessary. Thus, this paper helps construct a whole reputational process, from building reputation to repairing reputation, by complementing prior studies.

Second, although we focus on the unique aspects of repairing a firm's reputation, our theoretical model benefits from prior research on reputation building, because we cannot investigate damages to a firm's reputation without understanding the underpinnings of its reputation. Our model shows that prior studies on the multidimensionality of reputation, organizational age, diversity of market segments, and third

parties extend to the study of reputation repair. Specifically, we suggest that when a firm faces the risk of reputation damage following its mistakes, those factors affect (1) the firm's stakeholders' perceptions of organizational capability and (2) the external visibility of its faults, which combine to influence the difficulty of repairing reputation.

Our paper also has a significant managerial implication. We recognize a growing emphasis on the need for firms to incorporate a new executive—a chief reputation officer (CRO)—into their ranks with the specific role of building and defending firm reputation. Others have recognized the need for a CRO, as the following illustrate:

> [Charles Fombrun] recommends that businesses consider appointing a Chief Reputation Officer to look after the intangible elements in their name and brands: "Much as companies appoint a chief financial officer to safeguard financial capital, a chief operating officer to monitor operations . . . so they might benefit from appointing a Chief Reputation Officer to watch over the company's intangible assets" (*Financial Times,* 1996: 8).

> New York public relations firm TowersGroup suggests that a "chief reputation officer" be appointed by publicly held companies to monitor business practices that threaten a company's reputation (*USA Today,* 2002: 1B).

We believe that the CRO should also be responsible for crisis management—specifically, postscandal management—and our paper warns how vulnerable firms can be to reputation damages and how difficult it might be for them to recover from these damages. As discussed below in more detail, this may further help the CRO devise a set of strategies that reduce damages to reputation and ease reputation repair activities.

While our model contributes significantly to the field, some of the following limitations can be addressed in future studies.

### Complete Model

Although our model does not consider a complete set of factors that may affect reputation repair, we intend for it to inspire other reputation researchers and to initiate more detailed exploration of the context of repairing reputation damage. First, given that other organizational characteristics (i.e., organizational structure, culture, size, history, and managerial and financial wherewithal) can serve as important reputational dimensions, it would be ideal to elucidate the mechanisms through which those characteristics affect capability, external visibility, and the difficulty of reputation repair.

Second, given the multidimensionality of reputation, we suggest that each dimension has different dynamics of reputation repair. For example, reputation-damaging events in a firm's product reliability are more visible than those in supplier relationships, making it more difficult to repair the damages.

Third, we expect that the extent to which the main components in our model operate will vary across different types of stakeholders or market audiences. The heterogeneous nature of stakeholders' interests and the different avenues available for their information gathering may lead to variance in perceived capability and external visibility, thereby creating a diverse response to reputation-damaging events from different stakeholder groups. For example, there may be a gap in the perception of a firm's capability between internal stakeholders and external stakeholders due to different levels of access to information about the firm, whereas the firm's reputation-damaging event may be subject to different visibility depending on the position of market audiences.

Fourth, we focus only on two external constructs (perceived organizational capability and the external visibility of reputation-damaging events) as the main forces that directly relate to reputation repair. In the future we hope to see the identification of internal and additional external forces, as well as further investigations into how those forces mediate the effects of the multidimensionality of reputation, organizational age, diversity of market segments, and third parties on reputation repair.

Fifth, since our model includes the components underlying reputation building and reputation repair, future research could explore the components that are unique to the process of reputation repair.

Finally, future research should consider path-dependent feedback loops that may exist in the process of reputation repair. Reputation-damaging events are not affected by purely exogenous factors at a given moment in time. The events also reflect various endogenous processes, including a firm's cost and risk analyses of the

events (Larkin, 2003) and learning from the events (Haunschild & Rhee, 2004).

### Empirical Research

We expect future studies to attempt to connect our propositions to potential empirical variables. The weighted proportion of positive versus negative reputations and the relevance of positive reputations and reputation-damaging events can be operationalized by using prior studies that provide reputation scores across dimensions (e.g., Fombrun, 1996; Fombrun & Shanley, 1990). Rindova et al.'s (2005, 2006) recent work on reputation provides some guidance on how to operationalize external visibility. The measure of perceived organizational capability defined in our model may require the use of survey questionnaires that ask respondents (e.g., corporate executives) about their perception of relevant capabilities. In addition, difficulty in repairing damages to reputation could be measured through various scales that capture the repairing costs.

Although our model considers independent effects of each factor, it would also be intriguing to examine the relative weights of the key variables in our eight propositions in their effects on the level of difficulty in repairing reputation, as well as how those variables are related to one another. Such empirical investigation is particularly important in case a firm is located in conflicting, or even opposing, positions with respect to our propositions. Imagine that Wal-Mart and Target, both of which opened their first stores in 1962, faced large-scale litigation by their employees for exploitation. Target has obtained strong endorsements from consumer agencies, analysts, and industry associations owing to its business model around values alignment with its customers and employees. Stakeholders may perceive that Target can leverage the persistent support from those endorsers to cope with the litigation in effective ways, lessening the difficulty of managing its reputational crisis (Proposition 8). However, the congruence of the litigation with Target's positive reputation may increase the visibility of the litigation event to the market audience, making it more difficult for Target to overcome the crisis (Proposition 2).

In contrast, because Wal-Mart has built its positive reputation on economies of scale and superior supply chain management, while having a negative reputation in employment and consumer relationships, the market audience may be less sensitive to Wal-Mart's scandal related to its exploitative employment relations, relieving the burden of litigation on the firm. However, Wal-Mart's broader coverage of market segments than Target may contribute to increases in the external visibility of the litigation, leading the difficulty of reputation repair in the opposite direction (Proposition 5). Testing for the relative contribution of each proposition to our model is challenging, but it certainly deserves the attention of future empirical studies.

### Reputation-Damaging Events and Management Response

The last, yet perhaps most important, research challenge rests with providing a more comprehensive model that considers the characteristics of reputation-damaging events and a firm's reputation-repairing activities (i.e., the two stages outside the dotted circle in Figure 1), as well as their relationship with our model.

First, although we exclude the characteristics of reputation-damaging events, such as severity, frequency, and type, from our model, future studies need to provide additional robustness to our model by examining these characteristics' relationships with the model's main components. For example, given that nonsevere events provide different signals to market audiences than severe events (Hoffer et al., 1994; Rhee & Haunschild, 2006), the effect of third parties on the difficulty of reputation repair may be differentiated by the severity of reputation-damaging events. Marcus and Goodman's (1991) work on different types of corporate crises (accidents versus scandals) has more direct relevance to our model. Extending agency and signaling theories, they argued that firms have less difficulty in denying responsibility for accidents (e.g., oil spill) than for scandals, because accidents can occur entirely by chance, whereas scandals are usually the result of disgraceful misdeeds. Since scandals are more likely to be attributed to personal control (versus external control) than accidents, they may provide a stronger perception of organizational responsibility for reputation-damaging events (Coombs, 1998). This argument may lead to a prediction that scandals will cause greater difficulty than accidents in repairing damages to firm reputation. Some components in our model may also contrib-

ute to the differential effect of accidents and scandals. For example, a firm's endorsers may be more likely to withdraw their endorsement in the case of scandals than in the case of accidents. Such differential effects can further lead firms to take different stances on the reputation-damaging events: they may incur greater costs to ensure that scandals do not occur in the first place, but they may choose to run the risk of having accidents occur rather than incur the costs of repairing their reputation.

Second, given the level of difficulty in repairing a reputation (which can be estimated from our proposed model), executives will be required to pursue various ex post crisis strategies. For example, Sutton and Callahan proposed a hierarchy of "stigma management strategies" to repair reputation damage, which include "concealing, defining, denying responsibility, accepting responsibility, and withdrawing" (1987: 407). The perceptions of stakeholders with respect to such crisis management strategies serve as a dominant factor in repairing firm reputation (Dawar & Parker, 1994). For example, comparing Ashland Oil's and Exxon's experiences in major oil spills, Goldberg and Harzog (1996) found that, following the crisis, Ashland's stock price and earnings were far less affected than Exxon's because of Ashland's more rapid and positive response to the crisis.

We believe that crisis management strategies are not independent of the main components in our model. Future studies on this relationship can benefit from the extant impression management research that has focused on a firm's use of impression management in response to organizational crisis. The results of Marcus and Goodman's (1991) study, along with Coombs' (1998) experiment, imply that firms may be asked to show different responses (accommodative versus defensive) to a reputation-damaging event, depending on whether the event is an accident or a scandal. This further suggests a need for different management responses depending on the factors that influence the difficulty of reputation repair. For example, although our model proposes that a firm's endorsers help the firm to overcome its reputation-damaging events, this effect risks being diluted unless the firm offers an appropriate third-party strategy after the events. It may be the case that endorsers hesitate over continuous endorsement because doing so leads the public to perceive the endorsers as conspirators in the events. Thus, a firm needs to employ a crisis management strategy, which ensures its endorsers that their continuous endorsement after the events is safe. Also, the way in which management reacts to the punishment and/or scrutiny by watchdog agencies and reporting by prestigious media might mitigate or worsen damages to reputation. For example, when a chemical firm receives criticism from the media because it has released toxic substances, the firm can deflect the media criticism and sway other skeptical stakeholders by expressing commitment to the environment (e.g., equip its factory with environmentally superior facilities), which signals that it actually does care about the environment (Bansal & Clelland, 2004).

Other researchers have also investigated the effectiveness of numerous impression management techniques, which can also be used to cope with the different types of challenges in repairing reputation. Arndt and Bigelow's (2000) content analysis of hospitals' impression management suggests that a firm's "legitimized" excuse and justification for a reputation-damaging event, with the assurance of the nonrecurrence of the event, assists the firm in successfully coping with some of the difficulty in repairing its reputation. For example, although Toyota faces greater difficulty in overcoming product defects than other lower-quality carmakers (see Proposition 2), it can lessen this difficulty by providing the media and customers with accounts such as "We [Toyota], as the industry leader, are the first experimenter to install this product, so [we are] quite vulnerable to errors," or "These defects were found by us owing to our superb error detection technology" (from the January 2005 and December 2005 interviews with the senior manager of Toyota's external relations office; original in Japanese).

Given the difficulty and subjectivity in operationalizing the weighted proportion of positive versus negative reputations (see Proposition 1), it is also possible for a firm to influence stakeholders' perceptions of which reputational dimensions are important. For example, when Caterpillar, a leading manufacturer of heavy earth-moving equipment, faced complaints about its product quality, it "attempt[ed] to appease stakeholders by highlighting the greater importance of 24-hour customer service or no downtime than product quality in our world [earth-moving equipment industry]," because the firm had maintained the highest position in customer service (from our interview with a vice president of Caterpillar in December 2006). How-

ever, when those accounts are communicated to the market audience, ethical and "dialogical" persuasive techniques may be essential to prevent prolonged damages (Stevens, 1999).

Crisis managers can also benefit from many other symbolic communication strategies, which particularly help overcome the visibility-driven difficulty of reputation repair. Coombs' (1999) experimental study of crisis managers suggests that expressing compassion or concern for the victims of reputation-damaging events can help appease criticism from the public. Managers may even use impression management tactics that distract and moderate market audiences' attention and emotional reaction to reputation-damaging events, helping diminish the difficulty of reputation repair (Elsbach, Sutton, & Principe, 1998). Or they may employ self-affirmation tactics by devaluing the reputational dimensions threatened by the events through highlighting other favorable reputation dimensions (Elsbach & Kramer, 1996). Using references to institutional characteristics can also improve crisis managers' credibility and support their claims (Elsbach, 1994). For example, as the Toyota senior manager we interviewed stated, "After our recall announcement of a component, we often claim to the public that the NHTSA inspectors have praised our compliance with their standards and that we have won many contests from the prestigious institutions that test the component" (original in Japanese).

Crisis management may also involve structural or policy changes, not just the use of verbal communication. Hale et al.'s (2005) qualitative study of crisis response, which spotlights the role of communication filters along the four linear and spiral steps of management response (observation, interpretation, choice, and dissemination), also has significant implications for our model. A firm's excellent communication channels enabling adequate observation, complete and clear interpretation, timely evaluation, and effective dissemination of reputation-damaging events may help surmount the difficulty of reputation repair caused by the components in our model. In particular, good communication channels, representing a high level of response capability, may compensate for the low-capability-driven difficulty presented in our model. Westphal and Zajac's (1998) examination of the symbolic action in corporate governance suggests that the adoption of legitimate formal policy, such as a compensation system for error-related performance, can serve as a tangible buttress for verbal communication to meet shareholders' greater demand for managerial accountability for reputation-damaging events.

Overall, it is critical to attend to the contextual factors surrounding reputation-damaging events and the difficulty in repairing the damage. Our model sheds valuable light on the aspects that need to be considered.

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