

Reputations in flux: How a firm defends its multiple reputations in response to different violations

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[Correction added on 24 July 2021, after first online publication: The copyright line was changed.]

Abstract

Research Summary: We examine how a firm defends its capability and character reputations in response to different violations. We develop our core theoretical mechanism—stakeholders' situational expectations—to theorize that the effectiveness of a firm's response strategy following a violation depends on the nature of the violation and the reputational judgment being made. We test our hypotheses using two longitudinal violation samples and novel media-based measures of reputation. Generally, we find that a more accommodative strategy is an effective defense following a capability violation, but it is less effective following a character violation. In supplemental analyses, we also discover that a more accommodative strategy is less effective at managing general reputation. Ultimately, our theory and findings suggest that reputation defense is more complex than previously considered.

Managerial Summary: We shed light on the challenges managers face in defending their multiple reputations following a violation. We suggest that the type of violation affects stakeholders' expectations of the firm, and that these expectations differentially threaten a firm's multiple reputations as well as the efficacy of its response strategy. Using a sample of capability-based (unintentional financial restatements) and character-based (environmental malfeasance) violations, we find that a more accommodative response strategy can

defend certain reputations following a capability-based violation but can be detrimental to other reputations. We also find accommodativeness to be generally harmful following a character-based violation. Ultimately, our results suggest that managers should consider both the type of reputation they are defending and the nature of the violation when implementing a response strategy.

KEY WORDS

corporate violations and wrongdoing, firm reputation, perception management, reputation defense, social cognition

1 | INTRODUCTION

Much research has shown a link between a favorable firm reputation and positive firm outcomes (Deephouse, 2000; Pfarrer, Pollock, & Rindova, 2010; Rindova, Williamson, Petkova, & Sever, 2005; Roberts & Dowling, 2002). Because of the value of a favorable reputation, how a firm defends its reputation following a violation can be critical to its success. Examples of violations include financial restatements (e.g., Pfarrer, Smith, Bartol, Khanin, & Zhang, 2008), accusations of sweatshop labor (e.g., Lamin & Zaheer, 2012), and environmental malfeasance (e.g., Zyglidopoulos, 2001). In addition to directly damaging a firm's reputation (e.g., Love & Kraatz, 2009; Rhee & Haunschild, 2006), a violation can lead to a number of related consequences, including loss of stakeholder trust and goodwill (e.g., Zyglidopoulos, 2001), negative media coverage (e.g., Zavyalova, Pfarrer, Reger, & Shapiro, 2012), and executive turnover (e.g., Arthaud-Day, Certo, Dalton, & Dalton, 2006). Given these consequences, management research has become increasingly interested in understanding how a firm defends its reputation in response to violations (Love & Kraatz, 2009; Mishina, Block, & Mannor, 2012; Rhee & Haunschild, 2006; Rhee & Valdez, 2009; Zavyalova et al., 2012; Zavyalova, Pfarrer, Reger, & Hubbard, 2016).

However, while interest in reputation defense is growing, research in this domain has only begun to recognize that a firm may have multiple reputations (Chandler, Polidoro, & Yang, 2020; Love & Kraatz, 2009; Mishina et al., 2012; Park & Rogan, 2019; Parker, Krause, & Devers, 2019; Raithel & Schwaiger, 2015). For instance, a firm may have a reputation for capably delivering value to stakeholders while also having a reputation for exceptional character and trustworthiness (Mishina et al., 2012; Park & Rogan, 2019). Despite this growing realization that a firm can have multiple reputations, we still know little about how a firm's defense of one reputation might differentially affect its other reputations following a violation (cf., Chakravarthy, de Haan, & Rajgopal, 2014; Love & Kraatz, 2009; Rhee & Valdez, 2009). This is an important limitation, as a firm's defense of one reputation might actually damage another. Additionally, prior research has typically examined reputation defense within a single violation context (e.g., Chakravarthy et al., 2014; Chandler et al., 2020; Love & Kraatz, 2009; Park & Rogan, 2019; Rhee & Haunschild, 2006; Zavyalova et al., 2012). We thus know little about how

the type of violation influences the defense of multiple reputations, and whether a response strategy used in one violation context works differently in another.

In this study, we address the limitations of past research by examining how a firm defends its multiple reputations following different organizational violations. In particular, we examine the effectiveness of firms' initial response strategies following unintentional financial restatements as reported by the U.S. Government Accountability Office (GAO), and environmental malfeasance as reported by the U.S. Environmental Protection Agency (EPA). We test our set of hypotheses using novel media-based measures to capture a firm's multiple reputations. Ultimately, we answer a call for "theory-based studies designed to systematically identify and model the key variables" (Coombs, 2007, p. 135) that are critical to reputation defense—including a firm's multiple reputations, its response strategy, and the violation context.

Our study makes three primary contributions to reputation research. First, we consider how the sociocognitive properties that reflect a firm's multiple reputations (e.g., a reputation for capability and a reputation for character) are differentially threatened by different kinds of violations (e.g., a capability violation and a character violation). More specifically, we develop our core theoretical mechanism—stakeholders' *situational expectations* of the firm—to explain these different threats. In short, we argue that stakeholders have distinct expectations of firms based on the nature of the violation and the reputational judgment being made. For example, stakeholders' expectations for a firm defending its capability reputation in response to a capability violation will be different from their expectations for a firm defending its character reputation in response to a capability violation. In detailing our theoretical mechanism, we recognize the inherent variety in stakeholders' reactions that prior research has ignored.

Second, because of these distinct situational expectations, we theorize that different response strategies are more or less effective in the defense of each reputation, depending on the violation. In particular, we explore these differences by examining how a firm's initial response strategy, which captures a firm's communications in the immediate aftermath of a violation (Bundy & Pfarrer, 2015), affects its multiple reputations in different violation contexts. We ultimately find that the effectiveness of a response strategy depends on stakeholders' varying situational expectations, thus contributing to a growing stream of research interested in the dynamics of reputation defense.

Finally, in supplementary analyses, we further unpack our core mechanism by considering how the severity of the violation alters stakeholders' situational expectations. We also examine the role of a firm's general reputation—its generic favorability or appeal—in the dynamics of our theory. Overall, we present a comprehensive theory and test of the complexities associated with the defense of a firm's multiple reputations in response to different violations.

2 | THEORY AND HYPOTHESES

While debate persists regarding the exact nature and meaning of firm reputation (Barnett & Pollock, 2012), it has been traditionally understood as a collective social judgment focused on a firm's qualities or capabilities (Rindova et al., 2005). Building on this foundation, scholars have begun to recognize that a firm may have multiple reputations depending on the specific qualities or capabilities being assessed (Lange, Lee, & Dai, 2011; Love & Kraatz, 2009; Mishina et al., 2012; Park & Rogan, 2019; Rindova & Martins, 2012). For example, a firm may have a reputation for capably delivering value to stakeholders (Haleblian, Pfarrer, & Kiley, 2017), for producing quality products (Milgrom & Roberts, 1982), for its competitive tenacity and

aggressiveness (Carter & Deephouse, 1999), for being innovative (Henard & Dacin, 2010), or for its character, integrity, and trustworthiness (Bertels & Peloza, 2008). From a sociocognitive standpoint, each of these specific reputation judgments is deliberate and reflective, based on detailed information signals that are tightly linked to the specific idea, concept, or principle that underlies the assessment (e.g., capability, value, innovation, or character). Thus, a firm's multiple reputations are often characterized as reputations *for* something, varying based on observers' idiosyncratic perceptions and expectations of the firm (Lange et al., 2011).¹

While a firm can have many specific reputations, we focus on two primary types: *capability reputation*—based on a firm's ability to consistently deliver value over time—and *character reputation*—based on a firm's consistent demonstration of integrity and trustworthiness in its interactions with stakeholders (Mishina et al., 2012; Park & Rogan, 2019). Our focus on capability and character reputations is consistent with past theoretical and empirical research that has highlighted the importance of these two reputations, particularly in a violation context (Mishina et al., 2012; Park & Rogan, 2019; Parker et al., 2019). As noted by Mishina et al. (2012, p. 460), “These two types of reputational assessments have been consistently shown to be the two fundamental dimensions of social perception and judgments in social psychological research.” We also note that we are agnostic as to which stakeholders make these reputation assessments. That is, we assume any given employee, customer, or investor may assess a firm on its capability or character according to their own idiosyncratic standards.

2.1 | Reputation defense

A violation occurs when a firm's actions deviate from stakeholders' expectations (Burgoon & Le Poire, 1993).² Following a violation, stakeholders engage in a cognitive evaluation process to reconcile the violation with their prior expectations of the firm (Fiske & Taylor, 1991). The reconciliation process can influence stakeholders' perceptions of the firm in a negative manner (Elsbach, 2003), which can lead to withdrawal of stakeholder support and damage to the firm's reputation (Love & Kraatz, 2009).

Managers often use response strategies following violations in order to manage stakeholders' expectations and defend against reputation loss (Bundy, Pfarrer, Short, & Coombs, 2017; Coombs, 1995, 2007; Elsbach, 2003; Pfarrer, DeCelles, Smith, & Taylor, 2008; Zavyalova et al., 2012). Response strategies generally capture what the firm “says and does” in the aftermath of a violation (Benoit, 1995; Coombs, 2007, p. 170). We are particularly interested in a firm's initial communicative response, which is critical in terms of addressing the immediate uncertainty resulting from the violation, and which anchors stakeholders' first impressions about the violation (Bundy & Pfarrer, 2015).

Past research has categorized response strategies as ranging along a continuum of accommodativeness, defined by the degree to which the firm accepts responsibility for the violation (Bundy & Pfarrer, 2015; Coombs, 2007; Elsbach, 2003). For example, drawing on Marcus and Goodman (1991), Coombs (1998, p. 179–180) noted that “the various discussions of responses

¹We recognize that viewing a firm's reputations as multiple, specific judgments contrasts with alternative views of reputation as a *general* assessment of a firm's favorability (e.g., Lange et al., 2011). We consider this latter approach as well as potential interrelationships among a firm's multiple reputations in our supplementary analyses below.

²Expectancy violations can be positive (e.g., better-than-expected returns), or negative (e.g., financial restatements). In this manuscript, we focus on negative expectancy violations and refer to them simply as “violations.”

suggest a continuum...with endpoints of accepting responsibility/remediation and denial of a crisis." In this way, he explained that "[more] accommodative strategies accept responsibility, take remedial action, or both, whereas [less accommodative] strategies claim there is no problem or try to deny responsibility for the crisis." As such, within our context, we view more accommodative strategies as attempting to manage the reputational damage from a violation by proactively accepting responsibility, and may include apologies, expressions of regret, and promises of action. In contrast, less accommodative strategies attempt to avoid reputational damage from a violation by reducing a firm's perceived association with the violation, and may include excuses, justifications, and denials.

2.2 | Stakeholders' situational expectations

Our fundamental argument is that a key mechanism underlying the effectiveness of a firm's response strategy is stakeholders' *situational expectations* of the firm, which are based on *both* the nature of the violation and the reputational judgment being made. This mechanism is rooted in two central ideas related to reputation and violations. The first is the idea that reputations are built on stakeholders' expectations. For example, as noted by Fombrun and Shanley (1990, p. 235), "Reputations reflect firms' relative success in fulfilling the expectations of multiple stakeholders." Further, as detailed above, these expectations vary based on the nature of the reputation being considered; stakeholders' expectations regarding a firm's capability are distinct from their expectations for character. Thus, in the context of a violation, effective response strategies are those that fulfill stakeholders' expectations given the specific reputation under consideration. In other words, when defending its capability or character reputation following a violation, a firm's response is likely to influence stakeholders' expectations in different ways.

Second, we also know that within a violation context, stakeholders' expectations vary based on the nature of the violation itself. Research on violations has long acknowledged the importance of recognizing stakeholders' "socially constructed expectations" given the violation situation (Lange & Washburn, 2012, p. 301), and that stakeholders have "expectations regarding what type of account [they] would like to receive" in the aftermath of a violation (Brocato, Peterson, & Crittenden, 2012, p. 39). Because of these varying expectations, a growing line of research investigating reputation defense argues that a firm must match its response strategy to stakeholders' expectations related to the specific violation (e.g., Bundy & Pfarrer, 2015; Coombs, 2007; Raithel & Hock, 2021). Of course, these expectations may vary depending on a number of factors, including the violation's perceived intentionality, controllability, or severity (Bundy & Pfarrer, 2015). These expectations may also vary based on the degree to which a violation signals concerns related to a firm's capabilities or character (Kim, Ferrin, Cooper, & Dirks, 2004; Lee, Peterson, & Tiedens, 2004). That is, some violations might be perceived as accidents or mistakes, and thus signal a lapse in capability. In contrast, other violations might be perceived as intentional misdeeds, and thus signal a lapse in character. In this way, that nature of a violation is directly connected to the expectations associated with a firm's multiple reputations.

We combine these two central insights to recognize that stakeholders' situational expectations following a violation are based both on the reputation judgment and on the nature of the violation. For example, stakeholders may have different expectations of a firm's capability (character) reputation when faced with a violation that directly threatens these judgments versus

one that is less related. In other words, following a violation, stakeholders will look for different answers to recalibrate their unique expectations of a firm's specific reputations. Below, we theorize that different response strategies are more or less effective at recalibrating these expectations, depending on the degree to which the violation directly threatens stakeholders' reputation judgments. As such, stakeholders' situational expectations—in terms of the nature of the reputation and the violation—are important for understanding reputation defense.

In the following sections, we frame our theorizing around two types of violations (capability vs. character) and two types of firm reputations (capability vs. character). We summarize our arguments in Table 1.

2.3 | Defending against a capability violation

A capability violation primarily signals that the firm lacks the ability to consistently deliver value to its stakeholders (Kim et al., 2004; Lee et al., 2004; Salancik & Meindl, 1984; Sutton & Callahan, 1987). Examples of capability violations include product recalls, accidents, and unintentional errors (Coombs, 1995). These violations signal little in terms of character and are often framed as "mistakes" as opposed to "misdeeds."

2.3.1 | Capability reputation

As noted above, a firm's capability reputation reflects its ability to consistently deliver value to stakeholders. A capability violation thus directly threatens stakeholders' expectations along this dimension (see Table 1). Prior research suggests that when a firm's perceived ability to produce a valued outcome is threatened, stakeholders look for the organization to proactively reduce this perceived lack of ability and reinforce that it will prevent further violations (Kim et al., 2004; Mishina et al., 2012). In this way, stakeholders' situational expectations are oriented toward "positive capability [cues] that the firm actually possesses the ability" to deliver value (Mishina et al., 2012, p. 468).

As such, taking responsibility for the violation, providing remediation for damages, and/or instituting corrective actions—all hallmarks of a more accommodative response strategy (Coombs, 2007)—should match stakeholders' situational expectations following a capability

TABLE 1 Summary of theoretical arguments

Violation type	Reputation type	Threat type	Situational expectations	Effect of accommodativeness
Capability	Capability	Direct	Oriented toward positive capability cues	Positive (H1a)
Capability	Character	Indirect	Oriented toward any character cues	Positive (H1b)
Character	Capability	Indirect	Oriented toward any capability cues	Negative (H2a)
Character	Character	Direct	Oriented toward negative character cues	Negative (H2b)

violation. In other words, a firm's attempts to "own" the violation should send positive capability cues to stakeholders that the firm understands what happened, seeks redemption, and will correct the mistake (Lewicki & Bunker, 1996). In contrast, a less accommodative strategy does little to reinforce a firm's capabilities (Lee et al., 2004). For example, a firm may respond to a capability violation by blaming a service provider. This may deflect responsibility, but it also suggests that the firm is less capable of judging the ability of its providers. In these situations, stakeholders may doubt other decisions made by the firm and develop additional concerns related to its capabilities. As noted by Kim et al. (2004, p. 107), such a response may "limit signals of intended redemption because this response indicates that there will be no effort to change one's behavior." In this way, by providing excuses or justifications for the capability violation, the firm risks being perceived as ineffectual or incompetent (Schlenker, Pontari, & Christopher, 2001). Additionally, because positive capability-based cues are more diagnostic than negative capability-based cues (Skowronski & Carlston, 1989), any harm that may come from being held responsible for the violation is likely to be outweighed by the positive signal reinforcing the capabilities of the firm (e.g., Benoit, 1995; Coombs, 2007; Lee et al., 2004; Marcus & Goodman, 1991; Mishina et al., 2012; Pfarrer, DeCelles, et al., 2008).

Thus, because it matches their situational expectations, stakeholders should react more positively to a firm's more accommodative response strategy as they reevaluate a firm's capability reputation following a capability violation. A number of empirical studies provide support for this logic. For example, Kim et al. (2004) found that, in the context of a capability violation, individuals exhibited more trust toward a violating party when that party responded with a more accommodative strategy. At the organization level, Lee et al. (2004) found that a firm's more accommodative response to a capability violation had a positive influence on its stock price. We therefore hypothesize:

Hypothesis (H1a). *Following a capability violation, a more accommodative response strategy will be positively related to a firm's subsequent capability reputation.*

2.3.2 | Character reputation

A firm's character reputation reflects its integrity and trustworthiness in interactions with stakeholders (Mishina et al., 2012; Park & Rogan, 2019). A capability violation signals little about the firm's character, however, and it is not considered morally or normatively undesirable (Jones, 1991; Kim et al., 2004; Mishina et al., 2012). Thus, such a violation does not directly threaten a firm's character reputation. In such situations, rather than being concerned about the violation itself, stakeholders instead will look at how the firm handles the violation to see if it signals anything about the firm's character. In this way, stakeholders' situational expectations are indirectly oriented toward any positive or negative character cues that may come out of the firm's response (Mishina et al., 2012; Table 1).

Following a capability violation, stakeholders may interpret an organization's acceptance of responsibility as a sign of goodwill and a signal of its positive character (Benoit, 1995; Pfarrer, DeCelles, et al., 2008). In addition, a more accommodative response strategy has normative value in that can satisfy social expectations of justice, sincerity, and fairness (Coombs, 2007; Pfarrer, DeCelles, et al., 2008; Schlenker et al., 2001). Indeed, a number of communication and impression management scholars have argued that acknowledging a violation and signaling concern over societal norms can be beneficial (e.g., Benoit, 1995; Coombs, 2007; Elsbach, 2003;

Pfarrer, DeCelles, et al., 2008; Schlenker et al., 2001). In contrast, while a less accommodative response strategy may help reduce attributions of responsibility, such attributions are not likely to threaten a firm's character reputation in a capability violation because such a violation is not based on notions of character. Thus, stakeholders may be inclined to forgive a firm that accepts responsibility for a capability violation, preferring the positive character cues inherent in a more accommodative response to the negative character cues that may be inherent in violation responsibility.

In sum, because it conforms to stakeholders' situational expectations, a more accommodative response strategy should be positively related to a firm's character reputation following a capability violation. Empirical evidence supports this logic. For example, Bradford and Garrett (1995) showed that a more accommodative strategy increased perceptions of a violating firm as honest, concerned, and responsive in the context of a morally ambiguous marketing violation. Thus, we hypothesize:

Hypothesis (H1b). *Following a capability violation, a more accommodative response strategy will be positively related to a firm's subsequent character reputation.*

2.4 | Defending against a character violation

A character violation primarily signals that the firm lacks integrity or trustworthiness in its interactions with stakeholders (Kim et al., 2004; Lee et al., 2004; Salancik & Meindl, 1984; Sutton & Callahan, 1987). Examples of character violations include scandals, fraud, and other forms of malfeasance (Coombs, 1995). These violations signal little in terms of capability and are often framed as "misdeeds" as opposed to "mistakes."

2.4.1 | Capability reputation

Because a character violation signals little about a firm's capabilities, it does not directly threaten its capability reputation. In situations where the reputational assessment is not directly threatened, stakeholders may look to the firm's response to see if it signals anything about the firm's reputation—in this case, its capability reputation. In this way, stakeholders' situational expectations will be indirectly oriented toward any positive or negative capability cues that may come out of the firm's response (Mishina et al., 2012).

Taking responsibility for a character violation does little to reinforce the firm's perceived capabilities, but it may expose the firm to additional risk and losses. For example, in accepting responsibility for a character violation, the firm may open itself to legal liability, media criticism, government action, and calls for significant operational changes (Arthaud-Day et al., 2006; Pfarrer, DeCelles, et al., 2008). As such, stakeholders concerned with an organization's capabilities may view a more accommodative response to a character violation as potentially "imposing additional costs" on the firm, and thus violating their expectations (Lamin & Zaheer, 2012, p. 53). While these perceived costs are also present when a firm responds more accommodatively to a capability violation, they may be viewed by stakeholders as justified as the firm attempts to correct the problem and fix the capability issue. Following a character violation, however, stakeholders may see the potential costs stemming from a more accommodative response as a threat to a firm's capabilities, rather than being directly concerned with the

violation itself. In contrast, a less accommodative response may better match stakeholders' situational expectations in this case, as it works to reduce the perceived association between the violation and the firm (Coombs, 2007; Schlenker et al., 2001). Such reduced associations should decrease the perceived costs stemming from the violation, allowing the firm to continue concentrating on delivering value.

In sum, because it does not conform to their situational expectations, stakeholders' assessments of a firm's capability reputation are likely to decrease as a firm responds more accommodatively to a character violation. Empirical evidence supports this logic. For example, prior research has shown that investors react positively to less accommodative strategies in response to accusations of sweatshop labor, while they react negatively to more accommodative strategies (Lamin & Zaheer, 2012). Thus, we hypothesize:

Hypothesis (H2a). *Following a character violation, a more accommodative response strategy will be negatively related to a firm's subsequent capability reputation.*

2.4.2 | Character reputation

A character violation is perceived to be more morally and normatively undesirable (Jones, 1991; Kim et al., 2004; Mishina et al., 2012; Rhee & Valdez, 2009), and thus it directly threatens a firm's character reputation (see Table 1). When a violation questions the firm's character, prior research suggests that stakeholders seek to understand who is responsible for the violation (Bundy & Pfarrer, 2015; Coombs, 2007), and that being held responsible will often be interpreted as "highly diagnostic negative integrity information" (Kim et al., 2004, p. 107). This is because responsibility for a violation provides strong evidence that the firm may lack integrity (Kim et al., 2004; Mishina et al., 2012), and because negative information is more diagnostic than positive information when dealing with character-based judgments (Skowronski & Carlston, 1989). In this way, when reassessing character reputation in a character violation, stakeholders' situational expectations are oriented toward the negative character cues associated with violation responsibility (Mishina et al., 2012).

Because of this, a more accommodative response is likely to be damaging to character reputation in the context of a character violation. As noted above, stakeholders concerned with character may be willing to forgive a firm for accepting responsibility for a capability violation, seeing such acceptance as a positive attempt to own the situation (Kim et al., 2004). In contrast, being held responsible for a character violation is more likely to be perceived as a negative character cue. That is, instead of interpreting a firm's acceptance of responsibility as a sign of goodwill, stakeholders may interpret accommodativeness as a sign of guilt and a "reliable signal that one lacks integrity" (Kim et al., 2004, p. 107). As character-based perceptions of a violation increase, the negative information conveyed via responsibility for the violation may outweigh any positive information concerning justice and fairness. In considering this dynamic, Mishina et al. (2012, p. 470) suggested that "a more effective approach would be to direct [the firm's] efforts and resources toward minimizing and obfuscating negative cues." Similarly, in focusing specifically on the advantages of less accommodative responses, Schlenker et al. (2001, p. 17) noted that they can be "remarkably effective" because they reduce perceived responsibility and disengage the actor from the violation. That is, less accommodative responses "function by weakening the links that connect wrongdoers to wrongdoing" (Brocato et al., 2012, p. 42), thus reducing the expectancy violation that stakeholders may experience when reassessing a firm's character.

In sum, because it does not conform to their situational expectations, stakeholders' assessments of a firm's character reputation are likely to decrease as it responds more accommodatively to a character violation. Empirical evidence supports for this logic. For example, Kim et al. (2004) found that providing a more accommodative response to a character violation reduced perceptions that a trading partner adhered to a set of shared principles and was deserving of trust. We therefore hypothesize:

Hypothesis (H2b). *Following a character violation, a more accommodative response strategy will be negatively related to a firm's subsequent character reputation.*

3 | METHODOLOGY

3.1 | Samples

The structure of our arguments requires the identification of violation contexts that clearly represent deficiencies in a firm's capability or character, but not both. To represent capability violations, we identified a sample that consists of firms that engaged in *unintentional* financial accounting restatements as recorded by the U.S. Government Accountability Office (GAO) from 1997 to 2005 (GAO, 2006). Restatements can occur for many reasons, including errors and the unintentional misinterpretation of complex regulations, or because of fraud and the intentional manipulation of information (Hennes, Leone, & Miller, 2008). The GAO database captures a mixture of such restatements. Thus, we used Hennes et al.'s (2008) classification to identify unintentional versus intentional restatements.³ Unintentional restatements represent errors or mistakes in the interpretation of accounting rules, which signal a lack of capability.

All firms in the capability violation sample are U.S. public companies drawn from the S&P 500 and the S&P Midcap 400 indices. Using the GAO database, we first identified 388 total restatements from these firms from 1997 to 2005. We then classified each as intentional or unintentional using the Hennes et al. (2008) dataset, resulting in 264 unintentional restatements. Due to the availability of data for control variables and media coverage, the final sample contains 241 unintentional restatements by 216 firms. We conducted *t*-tests to check for differences between the final sample and the dropped observations. There were no statistically significant differences across the set of dependent and independent variables.⁴

We next identified a second violation sample that clearly signals a lack of character to stakeholders.⁵ Our sample includes firms that faced civil or administrative penalties from the U.S.

³Hennes et al. (2008) coded a restatement as unintentional if it: (1) was not described as "fraud" or "irregular" in corporate reporting, (2) was not associated with an SEC or DOJ investigation, and (3) was not associated with any other investigation or litigation (e.g., the Audit Committee hiring a forensic accounting firm).

⁴While these restatements are unintentional, they are not immaterial. Supplemental analyses revealed market consequences (e.g., -3.96% cumulative abnormal returns in a 7-day window) and attentional consequences (e.g., each restatement was followed by an average of 4.18 newspaper articles). Additionally, restatements are consequential not only to investors, but also to other stakeholders, such as employees or consumers, whose confidence and trust in the firm may be shaken following a restatement (e.g., Gertsen, van Riel, & Berens, 2006).

⁵Hennes et al. (2008) also identified intentional restatements, which they argued are representative of fraud or deceit. As such, we considered using these restatements to represent character violations. However, research remains equivocal regarding the moral nature of restatements, even when identified as intentional (e.g., Hennes et al., 2008). This suggests that it may be difficult for stakeholders to determine the degree to which a restatement threatens their specific character-based perceptions of a firm. Consistent with these concerns, supplemental analyses using intentional restatements as indicative of character violations showed no relationships between a firm's response strategy and its multiple reputations.

Environmental Protection Agency (EPA). Prior work has suggested that environmental violations represent an important context for studying character violations (e.g., Zyglidopoulos, 2001). Character-based perceptions of a violation increase as stakeholders can more easily identify the harm, and as social consensus about the negativity of the violation increases (Jones, 1991). While views on the environment showed increasing partisanship during our sample period, approximately three-quarters of U.S. adults felt the country should take proactive action to protect the environment, suggesting that environmental malfeasance was generally viewed negatively (Anderson, 2017). It is also easier for stakeholders to identify harm due to the often-visible consequences of environmental violations, including polluted waterways, smog, and harmed wildlife. Finally, environmental malfeasance can impact a number of stakeholders, including communities, employees, and shareholders. As such, we believe that such violations represent clear signals of a firm's character.

The sample frame consists of all civil cases and settlements brought against a firm by the EPA for violations of law and federal policy, including the Clean Air Act, Clean Water Act, and Superfund Act. We collected the data from the EPA's Enforcement and Compliance History Online database, gathering violations over \$50,000 committed by publicly traded firms from 1996 to 2008. Settlements under \$50,000 generally received no public scrutiny or organizational comment, and thus, were inappropriate for testing our theoretical arguments. The unit of analysis is each enforcement case ($N = 87$). Given data availability of control variables, the final sample consists of 74 violations by 58 firms. We conducted t -tests to check for differences between the final sample and the observations dropped due to data availability. There were no statistically significant differences across the set of dependent and independent variables.⁶

3.2 | Reputation measures

We used computer-aided text analysis (CATA) techniques to develop our measures of capability and character reputation (Duriau, Reger, & Pfarrer, 2007; Krippendorff, 2004; Neuendorf, 2002; Short, Broberg, Cogiliser, & Brigham, 2010). CATA categorizes communication and allows for inference about context (Krippendorff, 2004; Short et al., 2010). Measures are constructed based on dictionaries that represent theorized constructs. We constructed our CATA reputation measures using word counts generated from firm media coverage. The media act as a bridge to connect firms and stakeholders (Shoemaker & Reese, 1996). In doing so, the media engage not only in a reporting function to deliver information, but also in a shaping function to help set and establish stakeholders' expectations (McCombs & Shaw, 1972). Thus, the media are able to reflect multiple types of reputation and other social evaluations (e.g., Deephouse, 2000; Deephouse & Carter, 2005; Lamin & Zaheer, 2012; Pollock & Rindova, 2003; Zavyalova et al., 2012).⁷

⁶As with our capability violation sample, EPA violations had market (e.g., -0.75% cumulative abnormal returns) and attentional (e.g., an average of 3.02 newspaper articles) consequences following the announcement.

⁷The rhetorical concept of heteroglossia also helps explain how the media are an effective proxy for multiple reputations.

Heteroglossia is the idea that a single piece of text can have multiple "voices," which allows for multiple stakeholder interpretations of the same text (Morris, 2009). For example, readers could interpret the news statement, "Company X had positive growth in Q3, but its emissions increased significantly" in a number of ways. Stakeholders concerned with capability may react positively to the increasing growth, while stakeholders concerned with character may react negatively to the increased emissions. Thus, given heteroglossia, the media can represent and shape multiple expectations of stakeholders.

We used the LexisNexis database to capture media from the 50 largest U.S. newspapers by circulation and firms' press releases (Zavyalova et al., 2012). We used the largest 50 U.S. newspapers because they represent a variety of outlets that report on firm violations, but yet are not so broad as to overrepresent less-distributed, smaller-market media outlets.⁸ We collected two sets of media coverage for each violation. Time t is the day a violation was announced. The first set of media coverage extends from the day before the violation to 1 year prior to measure each type of endowed reputation_(t - 1 year), which we use for controls in all models. The second set extends from the day of the violation to 7 days after to measure each type of subsequent reputation_(t + 7 days), which we use for our dependent variables. Following prior work (e.g., Lamin & Zaheer, 2012), we chose a 7-day window after the event to better isolate the effects of the firm's initial response on each type of reputation while avoiding potentially confounding events. A 7-day window also represents a typical "news cycle" for media coverage (Kight, 2019).⁹

We developed unique CATA dictionaries for our measures of *capability reputation* and *character reputation* following the guidelines of Short et al. (2010) and McKenny, Short, and Payne (2013). Our validation procedures and final dictionaries are presented in Appendix A. The final measures are continuous variables representing the proportion of dictionary words over the total words in the corpus, multiplied by 100. We used the software Linguistic Inquiry and Word Count (LIWC) to capture these variables (Pennebaker, Booth, & Francis, 2007).

3.3 | Accommodativeness measure

To capture the accommodativeness of a firm's response strategy, we used a structured content analysis technique to analyze firms' press releases on the day they announced a violation (Duriau et al., 2007; Lamin & Zaheer, 2012).¹⁰ Firms are required to issue a public statement when restating earnings, so a press release or statement was available for all observations in the GAO dataset. In contrast, firms are not required to respond to an EPA violation. When a firm press release was not available, we relied on the EPA's press release, which often included a statement from the firm. Supplemental analyses show that EPA press releases do not substantively differ in length or content from firms' releases. We evaluated each press release as the unit of analysis and coded it based on its primary message (Lamin & Zaheer, 2012).

As mentioned above, a response strategy exists along a continuum of accommodativeness (Coombs, 1998). Thus, we coded our *accommodativeness* variable on a seven-point scale, with 1 representing low accommodativeness and 7 representing high accommodativeness. We employed a trained graduate student who was blind to the study's hypotheses to assess inter-rater reliability. The first author and the graduate student each independently coded a random

⁸In a supplemental analysis, we investigated whether there were differences in coverage across outlets, which could represent bias. We found a high intraclass correlation coefficient ($\alpha = .816$) across all content analysis variables used in the study, suggesting that our sample of media coverage is general and representative.

⁹Approximately three-quarters of the articles published within a month of the violation in both samples were published in the first 7 days. In contrast, a shorter time frame, such as a 2- or 3-day window, excluded over half of the articles, thereby strongly reducing the power of our analyses, while longer windows, such as 14 or 30 days, injected noise into our analyses.

¹⁰We examined a random subsample of 4,821 articles released prior to the violation date to check for leakage in the media. Only 1 case (0.02%) showed evidence of the violation being discussed prior to the firm's press release.

sample of 200 press releases from the complete GAO dataset. A Krippendorff's alpha of .92 indicated high interrater agreement (Krippendorff, 2004). We present additional information and representative examples of our coding in Appendix B.

3.4 | Controls

We included a variety of controls to address alternative explanations. In all models, we controlled for each type of a firm's *endowed reputation*_(t - 1 year) to account for a firm's reputation history. Additionally, a firm that has a *prior violation* may find it more difficult to defend its reputation (Pfarrer, DeCelles, et al., 2008). In our sample of EPA violations, prior violation takes the value of 1 if the firm had a similar violation in the past 5 years. In our sample of GAO restatements, prior violation takes the value of 1 if the firm had a similar violation at any point up to 5 years earlier. Across both samples, we measured the total *word count* (in millions) of the corpus to control for the firm's media visibility during the year prior to the violation. We also controlled for *firm size* (log of sales) and *firm performance* (ROA), since larger and higher performing firms may garner more attention for their violations. The data for these variables come from the COMPUSTAT database. Both are lagged 1 year relative to the dependent variable.

In both samples we also controlled for the firm's endowed *general reputation*_(t - 1 year). Deephouse (2000) used media tenor as a measure of general reputation, and others have used tenor as a proxy for a firm's generalized favorability (e.g., Zavyalova et al., 2012). To capture this variable, we analyzed each firm's media coverage using the positive emotion dictionary available in LIWC (Pennebaker et al., 2007). The final measure is a continuous variable representing the proportion of positive dictionary words to the total number of words in the corpus, multiplied by 100. Finally, in both samples we controlled for violation *severity*. We calculated severity by dividing the firm's change in net income following the violation by its prior year's revenue (Gomulya & Boeker, 2014).

In the GAO sample, we controlled for whether the restatement was related to the *core* earnings of the firm, as well as the *direction* of the restatement (Palmrose & Scholz, 2004). Both variables are dummy coded, with 1 indicating a core restatement or a positive restatement, respectively. We also employed dummy controls for *year* and *industry* effects. In addition, less *prominent* disclosures can reduce negative perceptions (Files, Swanson, & Tse, 2009). This variable takes a value of 1 if the disclosure was in a press release's headline, a 2 if it was in the body of the narrative, and a 3 if the disclosure was in a footnote. Prior research also indicates the importance of restatement *source*—either self-disclosed by the firm or mandatorily disclosed by the SEC (Pfarrer, Smith, et al., 2008). This variable takes a value of 1 if the focal firm initiated the disclosure and 0 otherwise. A restatement *bundled* with other news could also dampen negative reactions (Graffin, Carpenter, & Boivie, 2011). This variable takes a value of 1 if the press release contained multiple news items and 0 otherwise.

In the EPA sample, we controlled for the *financial penalty* associated with the violation, measured as the total dollar amount of the settlement (in millions). We also dummy coded for instances in which we had to rely on an *EPA press release* for information about the firm's response strategy. Finally, we were unable to employ dummy controls for *year* and *industry* given a lack of statistical power. We 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 G. W. Bush administration and 0 during the Clinton administration. To control for *industry* effects, we employed a dummy variable if the firm was in the *manufacturing* sector, represented by SIC codes 2000-3999.

3.5 | Estimation procedure

Both samples include firms with repeated violations over time, and some firms had multiple violations in the same year. Additionally, our models include a firm's endowed reputations as control variables. These sample and model characteristics likely violate the assumption of constant error variance needed for ordinary least squares regression (Wooldridge, 2002). We therefore tested each sample for the presence of heteroskedasticity and autocorrelation. A Cook-Weisberg test revealed a risk of heteroskedasticity across all models. In addition, a firm's post-violation reputations may be influenced by factors other than its response strategy. To account for such omitted variable bias, as well as other types of endogeneity, we implemented two-stage models with instrumental variables. A two-stage design allows us to predict a firm's response strategy in the first stage and predict the influence of that strategy on a firm's reputation_(t + 7 days) in the second stage, while controlling for the potential endogeneity resulting from the first-stage equation. That is, a two-stage model allows us to control for a firm's potential nonrandom selection of a response strategy.

Given these issues, we used two-stage feasible generalized least squares (FGLS) as our estimator. FGLS has been used in prior research investigating social evaluations (e.g., Lamin & Zaheer, 2012; Philippe & Durand, 2011) and provides reliable estimates in the presence of heteroskedasticity while not requiring a priori specification of its source (e.g., from repeated firms, years, or both [Wooldridge, 2002]). Our two-stage error correction followed steps outlined by Baltagi (2011). In the first stage, we obtained predictions for our instrumented variable. In the second stage, we used the prediction and applied a corrected mean squared error to manipulate the variance-covariance matrix, allowing for corrected coefficients and standard errors.

To account for endogeneity, we identified instrumental variables that were predictive of the first-stage endogenous variable but were not associated with the error term of the dependent variable (Bascle, 2008). In the capability violation sample, we used a binary variable, *quote*, which took the value of 1 if the restatement included a quotation from an executive and 0 otherwise. The *F*-statistic of the first stage was 12.51, which was above the threshold ($F = 8.96$) for single instruments (Stock & Yogo, 2005; Wooldridge, 2002), demonstrating our instrument's relevance. Since we could not explicitly test for instrument exogeneity because we were only able to identify one relevant instrument, we conduct a Durbin-Wu-Hausman specification test to assess whether our corrected model estimates significantly differed from OLS estimates. The results ($p = .290$) suggested that this was not the case. In the character violation sample, we used a binary variable, *open ended*, as our instrument. This variable took a value of 1 if the violation remained unresolved ("open ended") and 0 otherwise. The *F*-statistic of the first stage was 10.90, which was above the threshold ($F = 8.96$) for single instruments (Stock & Yogo, 2005; Wooldridge, 2002), demonstrating this instrument's relevance. The Durbin-Wu-Hausman specification test ($p = .335$) again suggested that our corrected estimators did not significantly differ from the OLS estimator. We retain the two-stage results, however, because the choice of a response strategy is inherently endogenous, the predictors of a firm's accommodativeness are theoretically interesting, and, overall, we believe the model is more accurate.

4 | RESULTS

Table 2 provides descriptive statistics and correlations for the measures in the capability violation sample (i.e., the GAO sample). Table 3 provides descriptive statistics and correlations for the measures in the character violation sample (i.e., the EPA sample).

TABLE 2 Descriptive statistics—capability violation sample^a

Variable	Min	Max	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Accommodativeness	1.00	6.00	3.93	1.26																
2 Capability reputation	0.00	3.62	1.44	0.73	0.05															
3 Character reputation	0.00	1.68	0.35	0.20	-0.01	-0.04														
4 Capability reputation	0.19	1.93	0.83	0.24	-0.02	0.19	-0.07													
5 Character reputation	0.06	1.33	0.27	0.11	0.00	-0.21	0.17	0.25												
6 General reputation	0.31	3.07	1.45	0.46	-0.08	-0.18	-0.06	0.48	0.50											
7 Core restatement	0.00	1.00	0.83	0.38	-0.12	0.05	0.04	0.05	0.01	0.04										
8 Direction	0.00	1.00	0.11	0.31	0.18	0.07	0.11	-0.08	0.00	-0.06	0.09									
9 Severity	-0.82	1.04	0.00	0.16	-0.02	0.06	0.02	-0.03	-0.01	0.00	0.00	-0.05								
10 Prior violation	0.00	1.00	0.16	0.36	0.00	-0.07	0.05	-0.01	0.07	0.03	0.01	0.01	-0.03							
11 Prominence	1.00	3.00	1.54	0.62	-0.17	0.25	-0.05	-0.04	-0.12	-0.05	-0.06	-0.02	-0.07	-0.04						
12 Word count	0.01	1.88	0.32	0.34	-0.04	-0.23	0.11	-0.03	0.29	0.24	-0.06	-0.01	-0.05	0.11	-0.02					
13 Firm performance	-213.11	1,100.00	7.60	81.83	0.09	-0.08	-0.05	0.04	0.01	0.04	0.03	-0.02	-0.28	0.04	0.01	-0.03				
14 Firm size (log of sales)	4.93	12.16	8.08	1.42	-0.04	-0.31	0.03	-0.01	0.36	0.32	0.01	0.09	-0.11	0.08	-0.11	0.51	0.02			
15 Bundled	0.00	1.00	0.59	0.49	-0.11	0.31	-0.03	0.04	-0.13	-0.04	0.03	-0.02	0.02	0.00	0.50	-0.14	-0.02	-0.18		
16 Source	0.00	1.00	0.64	0.48	0.19	0.01	-0.07	0.00	0.02	-0.05	0.12	0.06	-0.01	0.03	-0.21	-0.09	0.05	-0.06	-0.01	
17 Quote	0.00	1.00	0.28	0.45	0.14	0.02	-0.04	0.07	0.01	0.06	0.05	-0.03	0.05	0.02	-0.07	0.01	-0.04	0.04	0.03	

^aN = 241. Correlations greater than |.10| have p-value ≤ .05.

TABLE 3 Descriptive statistics—character violation sample^a

Variable	Min	Max	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Accommodativeness	1.00	7.00	3.72	1.25															
2 Capability reputation ($t + 7$ days)	0.00	2.70	0.82	0.53	-0.06														
3 Character reputation ($t + 7$ days)	0.00	0.89	0.29	0.18	0.04	0.09													
4 Capability reputation ($t - 1$ year)	0.13	1.64	0.80	0.24	0.01	0.38	0.04												
5 Character reputation ($t - 1$ year)	0.14	0.71	0.32	0.11	0.19	-0.16	0.12	0.02											
6 General reputation ($t - 1$ year)	0.47	2.77	1.52	0.41	0.04	0.15	0.15	0.46	0.60										
7 EPA release	0.00	1.00	0.74	0.44	0.01	0.00	-0.05	0.07	-0.27	-0.05									
8 Financial penalty	0.03	21.56	1.85	3.51	-0.09	0.21	0.06	0.10	-0.08	0.02	-0.37								
9 Bush administration	0.00	1.00	0.67	0.47	0.12	0.06	0.26	-0.13	0.19	0.03	0.24	-0.35							
10 Severity	-0.16	0.33	0.01	0.07	0.07	-0.23	0.10	-0.46	0.06	-0.40	-0.20	-0.09	0.20						
11 Prior violation	0.00	1.00	0.24	0.43	0.00	0.11	0.14	0.28	0.10	0.23	0.28	-0.14	0.29	-0.15					
12 Manufacturing	0.00	1.00	0.71	0.46	-0.02	0.13	-0.03	0.31	-0.33	-0.05	0.08	0.08	-0.23	-0.11	0.00				
13 Word count	0.00	3.57	0.43	0.50	0.32	0.06	0.22	0.03	0.08	0.13	0.18	-0.12	0.24	-0.05	0.19	0.10			
14 Firm performance (ROA)	-32.70	15.08	9.57	1.61	0.08	0.21	0.48	0.31	0.45	0.49	0.21	-0.14	0.40	-0.10	0.56	-0.09	0.44		
15 Firm size (log of sales)	5.40	12.48	4.45	8.49	-0.05	0.19	-0.03	0.35	-0.31	0.31	0.39	0.04	-0.11	-0.59	0.21	0.30	0.21	0.27	
16 Open ended	0.00	1.00	0.06	0.23	-0.38	0.16	-0.02	0.02	-0.03	-0.02	-0.30	0.14	-0.24	-0.05	-0.14	-0.06	-0.20	-0.06	

^aN = 74. Correlations greater than |.22| have p-value ≤ .05.

Table 4 presents results from the two-stage FGLS analyses for the capability violation sample, and Table 5 presents results for the character violation sample. Model 1 in both tables presents the results from the first-stage regressions estimating a firm's accommodativeness.

4.1 | Hypotheses (H1a) and (H1b)

Models 3 and 5 of Table 4 present the results from the second-stage regressions testing Hypotheses (H1a) and (H1b). Hypothesis (H1a) predicts a positive relationship between a more accommodative response strategy and capability reputation_(t + 7 days) for a capability violation. This hypothesis is supported in Model 3 of Table 4 ($b = 0.191$; $p = .008$). A one-standard deviation increase in accommodativeness increases the mean firm's subsequent capability reputation by over 10%. Hypothesis (H1b) predicts that a more accommodative response strategy will be positively related to character reputation_(t + 7 days) for a capability violation. The results in Model 5 of Table 4 suggest that this hypothesis is not supported ($b = -0.016$; $p = .198$). Taken together, in response to a capability violation, a firm's more accommodative response strategy has a substantial positive influence on its subsequent capability reputation but does not appear to influence its character reputation.

4.2 | Hypotheses (H2a) and (H2b)

Models 3 and 5 of Table 5 present the results from the second-stage regressions testing Hypotheses (H2a) and (H2b). Hypothesis (H2a) predicts a negative relationship between a more accommodative response strategy and a firm's capability reputation_(t + 7 days) for a character violation. The results in Model 3 of Table 5 suggest this hypothesis is supported ($b = -0.229$; $p = .000$). A one-standard deviation increase in accommodativeness decreases the mean firm's subsequent capability reputation by 23%. Hypothesis (H2b) predicts that a more accommodative response strategy will be negatively related to character reputation_(t + 7 days) for a character violation. This hypothesis is supported, as shown in Model 5 of Table 5 ($b = -0.042$; $p = .000$). This result suggests that a one-standard deviation increase in accommodativeness decreases the mean firm's subsequent character reputation by 13%. Taken together, a firm's more accommodative response strategy appears to be negatively related to its subsequent capability and character reputations in our character violation sample.

4.3 | Supplemental analyses

4.3.1 | Unpacking situational expectations as a mechanism

Our arguments focused on stakeholders' situational expectations as the primary mechanism for understanding the effectiveness of a firm's response strategy in defending its multiple reputations. However, this mechanism is a cognitive feature of stakeholders' sensemaking, and, as highlighted in our theory, varies based on the nature of the violation and the firm's reputation. In this supplementary analysis, we further isolate our primary mechanism by introducing a moderator, violation *severity*, that captures variance in stakeholders' situational expectations across violation types.

TABLE 4 Two-stage FGLS regression results—capability violation sample^a

Variable	Model 1		Model 2 DV = capability reputation		Model 3 DV = capability reputation		Model 4 DV = character reputation		Model 5 DV = character reputation	
	DV = accommodativeness	DV = accommodativeness	DV = capability reputation	DV = capability reputation	DV = character reputation	DV = character reputation	DV = character reputation	DV = character reputation	DV = character reputation	DV = character reputation
Capability reputation ($t - 1$ year)	0.322 [.003] (0.107)		1.137 [.000] (0.061)		1.079 [.000] (0.066)		0.087 [.000] (0.016)		0.100 [.000] (0.016)	
Character reputation ($t - 1$ year)	1.312 [.000] (0.349)		0.063 [.779] (0.223)		-0.216 [.335] (0.248)		0.375 [.000] (0.044)		0.417 [.000] (0.042)	
General reputation ($t - 1$ year)	-0.298 [.000] (0.069)		-0.435 [.000] (0.047)		-0.389 [.000] (0.053)		-0.096 [.000] (0.010)		-0.111 [.000] (0.009)	
Core restatement	-0.674 [.000] (0.068)		0.182 [.000] (0.029)		0.304 [.000] (0.058)		0.044 [.000] (0.007)		0.034 [.001] (0.010)	
Direction	0.568 [.000] (0.097)		-0.014 [.764] (0.047)		-0.125 [.083] (0.072)		0.015 [.237] (0.013)		0.019 [.193] (0.015)	
Severity	0.645 [.093] (0.384)		0.576 [.000] (0.122)		0.451 [.000] (0.129)		0.093 [.005] (0.033)		0.094 [.006] (0.034)	
Prior violation	-0.435 [.000] (0.072)		-0.240 [.000] (0.039)		-0.157 [.004] (0.054)		0.019 [.031] (0.009)		0.010 [.423] (0.012)	
Prominence	-0.302 [.000] (0.046)		0.136 [.000] (0.019)		0.196 [.000] (0.033)		-0.018 [.002] (0.006)		-0.025 [.002] (0.008)	
Word count	0.233 [.086] (0.136)		-0.007 [.096] (0.004)		-0.349 [.000] (0.067)		-0.384 [.000] (0.070)		0.042 [.009] (0.016)	
Firm performance (ROA)			-0.001 [.468] (0.001)		-0.000 [.935] (0.002)		0.001 [.002] (0.000)		0.000 [.006] (0.000)	
Firm size (log of sales)			-0.017 [.127] (0.025)		-0.007 [.589] (0.011)		-0.007 [.888] (0.012)		0.001 [.829] (0.003)	

TABLE 4 (Continued)

Variable	Model 1 DV = accommodativeness	Model 2 DV = capability reputation	Model 3 DV = capability reputation	Model 4 DV = character reputation	Model 5 DV = character reputation
Bundled	-0.033 [.609] (0.065)	0.112 [.004] (0.039)	0.123 [.003] (0.041)	0.011 [.135] (0.008)	0.010 [.184] (0.008)
Source	0.386 [.000] (0.049)	-0.025 [.499] (0.036)	-0.124 [.029] (0.057)	-0.048 [.000] (0.007)	-0.040 [.000] (0.008)
Quote (instrument)	0.564 [.000] (0.046)				
Accommodativeness		H1a: 0.191 [.008] (0.072)	H1b: 0.191 [.008] (0.072)		-0.016 [.198] (0.012)
Constant	4.835 [.000] (0.503)	1.646 [.000] (0.103)	0.721 [.057] (0.378)	0.192 [.000] -0.043	0.266 [.001] -0.080
Wald Chi ²	8.272 [.000]	4,814 [.000]	16,630 [.000]	6,200 [.000]	4,519 [.000]

^aN = 241. Standard errors in parenthesis. *p*-values in brackets. Two-tailed tests. Year and industry dummies included.

TABLE 5 Two-stage FGLS regression results—character violation sample^a

Variable	Model 1		Model 2		Model 3		Model 4		Model 5	
	DV = accommodativeness	DV = capability reputation	DV = capability reputation	DV = capability reputation	DV = character reputation					
Capability reputation ($t - 1$ year)	1.530 [.000] (0.250)	0.815 [.000] (0.137)	1.145 [.000] (0.164)	-0.193 [.000] (0.039)	-0.113 [.003] (0.038)					
Character reputation ($t - 1$ year)	5.083 [.000] (0.873)	-1.459 [.007] (0.545)	-0.439 [.450] (0.580)	-0.172 [.084] (0.100)	0.112 [.403] (0.134)					
General reputation ($t - 1$ year)	-0.392 [.040] (0.191)	0.150 [.293] (0.143)	0.080 [.621] (0.161)	0.133 [.000] (0.019)	0.101 [.000] (0.020)					
EPA release	-0.248 [.274] (0.227)	-0.137 [.050] (0.070)	-0.116 [.205] (0.092)	-0.080 [.000] (0.019)	-0.071 [.001] (0.020)					
Financial penalty	-0.037 [.052] (0.019)	0.029 [.004] (0.010)	0.017 [.076] (0.010)	0.006 [.004] (0.002)	0.006 [.001] (0.002)					
Bush administration	0.211 [.130] (0.139)	0.267 [.000] (0.046)	0.321 [.000] (0.063)	0.034 [.107] (0.021)	0.067 [.006] (0.025)					
Severity	2.334 [.026] (1.047)	-0.821 [.113] (0.518)	-0.389 [.536] (0.630)	0.153 [.258] (0.135)	0.218 [.144] (0.149)					
Prior violation	0.085 [.563] (0.148)	-0.096 [.193] (0.074)	-0.087 [.297] (0.083)	0.034 [.087] (0.020)	0.030 [.136] (0.020)					
Manufacturing industry	0.095 [.363] (0.104)	0.060 [.368] (0.067)	0.078 [.341] (0.082)	0.095 [.000] (0.020)	0.095 [.000] (0.021)					
Word count	0.957 [.000] (0.082)	-0.006 [.913] (0.053)	0.217 [.008] (0.082)	0.041 [.040] (0.020)	0.080 [.001] (0.024)					
Firm size (log of sales)	-0.331 [.000] (0.041)	0.065 [.015] (0.027)	0.001 [.953] (0.023)	0.053 [.000] (0.006)	0.039 [.000] (0.007)					

TABLE 5 (Continued)

Variable	Model 1	Model 2 DV = capability reputation	Model 3 DV = capability reputation	Model 4 DV = character reputation	Model 5 DV = character reputation
Firm performance (ROA)	0.026 [.003] (0.009)	-0.006 [.063] (0.003)	-0.003 [.453] (0.004)	-0.004 [.001] (0.001)	-0.003 [.036] (0.001)
Open-ended (instrument)		-2.242 [.000] (0.216)			
Accommodativeness		H2a: 4.336 [.000] (0.433)	-0.229 [.000] (0.038)	H2b: 0.532 [.015] (0.217)	-0.042 [.000] (0.011)
Constant		-0.319 [.074] (0.179)	-0.282 [.000] (0.056)	-0.143 [.016] (0.060)	
Wald Chi2		6,744 [.000] 18,764 [.000]	1,369 [.000] 420 [.000]	921 [.000]	

^aN = 74. Standard errors in parenthesis. *p*-values in brackets. Two-tailed tests.

Prior research has argued and shown that increasing violation severity can increase the degree to which stakeholders hold the organization responsible for a violation (Bundy & Pfarrer, 2015; Coombs, 1998; Lange & Washburn, 2012; Mishina et al., 2012). In this way, severity acts as a dimension of stakeholders' situational expectations, with more severe violations increasing approval or disapproval for a particular response strategy (e.g., Basche, 2016). Specifically, as stakeholders attribute more responsibility to the firm, they also expect the firm to accept more responsibility in its response (Bundy & Pfarrer, 2015; Coombs, 2007). As such, violation severity may increase the degree to which stakeholders positively receive a more accommodative response, regardless of reputation or violation type.

Appendix C provides regression models and figures depicting the interaction between response strategy and violation severity. In all cases, our results generally support the idea that as violation severity increases, stakeholders react more positively to an accommodative response strategy.¹¹ Overall, these results provide additional support that situational expectations are the primary mechanism explaining how stakeholders react to firms' response strategies.

4.3.2 | Considering general reputation

As noted in Footnote 1, we recognize that our focus on a firm's multiple, specific reputations may contrast with views of reputation as a general assessment of a firm's favorability (e.g., Lange et al., 2011). According to this latter perspective, reputation is a global impression of a firm that is based on a firm's ability to satisfy broad social expectations (Lange et al., 2011; Rindova & Martins, 2012). In this sense, general reputation captures perceptions of a firm's generic goodness, emotional appeal, or affinity (Bundy & Pfarrer, 2015; Lange et al., 2011). While we controlled for general reputation in our primary analyses, here we consider how it fits into our overarching theory as a dependent variable.

How stakeholders form general reputation judgments is likely different from how they form their more specific capability and character judgments. For example, general reputation likely results from a more heuristic and intuitive process, with stakeholders using information and cues that are less nuanced than the more complex signals used to construct specific reputations (Lange et al., 2011). As such, a firm's general reputation tends to transcend specific dimensions (e.g., capability or character) and is more loosely coupled with stakeholders' idiosyncratic expectations (Rindova & Martins, 2012). Because of this, it is likely that the violation context is not as important for stakeholders' situational expectations when reassessing a firm's general reputation. Instead, such expectations are based largely on the degree to which stakeholders view the situation as generically good or bad.

Thus, understanding how a firm's response strategy affects its general reputation is unclear. As we theorize above, increasing accommodativeness demonstrates capability and signals normative value, both of which stakeholders could interpret as generically positive signals. However, increasing accommodativeness can also convey a generically bad signal in that it confirms

¹¹In the capability violation sample, severity strengthens the positive relationship between a more accommodative response strategy and subsequent reputation judgments (for capability reputation, $b = 0.198$ [$p = .000$]; for character reputation, $b = 0.108$ [$p = .000$]). In the character violation sample, severity weakens the negative relationship between a more accommodative response strategy and subsequent reputation judgments (for capability reputation, $b = 1.362$ [$p = .024$]; for character reputation, $b = 0.349$ [$p = .022$]).

the firm's guilt. In contrast, the general impression generated from a less accommodative strategy is one of diffused or questionable responsibility. Given these arguments, a more accommodative response strategy may have either a positive or negative effect on a firm's general reputation.

We present regression models testing the influence of a firm's accommodativeness on stakeholders' general reputation judgments_(t + 7 days) in Appendix D. Results show a significant negative relationship in the capability violation sample ($b = -0.080$; $p = .024$) but not relationship in the character violation sample. We consider the implications of these findings below.

4.3.3 | Interrelationship between reputation types

Finally, we further examine the notion that a firm's multiple reputations are related but distinct in several post-hoc analyses. In Tables 2 and 3, a firm's general reputation correlates with both its capability and character reputations ($r = .48$ and $r = .50$, respectively, in the capability violation sample; $r = .46$ and $r = .60$, respectively, in the character violation sample). This suggests that specific and general reputations are related given that (a) consistently delivering value and (b) consistently demonstrating integrity may naturally lead to overall favorability among stakeholders.

The relationship between a firm's capability and character reputations is, however, more nuanced, given that they vary based on observers' idiosyncratic expectations (Lange et al., 2011; Parker et al., 2019). This distinction is reflected in our capability violation sample, in which a firm's endowed capability and character reputations_(t - 1 year) are significantly correlated with each other ($r = .25$), but a firm's post-violation reputations_(t + 7 days) are not significantly related ($r = -.04$). In our character violation sample, endowed reputations_(t - 1 year) are not significantly related ($r = .02$), and reputations following the violation_(t + 7 days) display a similar pattern ($r = .09$).

We also investigated these interrelationships using exploratory factor analysis. Looking at the pre-violation_(t - 1 year) reputation measures, these loaded onto one factor (0.87 for general, 0.74 for character, and 0.72 for capability) in the capability violation sample. The uniqueness of the variance (0.25, 0.45, and 0.48) suggests that the specific reputations contribute roughly equally to this factor, while general reputation contributes slightly less. We repeated this exercise using the pre-violation measures_(t - 1 year) in the character violation sample and the results were nearly identical. Overall, this supplemental analysis supports the idea that a firm's multiple reputations are related but distinct.

5 | DISCUSSION

We make three primary contributions to management theory and research on firm reputation. First, we extend research that investigates reputation defense strategies with an understanding that reputation is a complex and multifaceted construct (Chakravarthy et al., 2014; Rhee & Valdez, 2009; Zavyalova et al., 2012, 2016). In particular, we contribute by theorizing about stakeholders' situational expectations of firms based on the nature of the violation and the reputational judgment being made. Second, we also contribute by showing that the effectiveness of response strategies depends on these situational expectations. For example, we show that a firm's capability reputation is better defended via a more accommodative strategy in the context

of a capability violation, likely because such a strategy demonstrates ability. In contrast, a more accommodative strategy is less effective at defending character reputation, particularly in the context of a character violation, likely because such a strategy admits guilt and signals a lack of integrity. In supplementary analyses, we also show that general reputation seems sensitive to the nature of the violation, with stakeholders responding negatively to a more accommodative strategy in capability violations, but showing no response to character violations. These findings suggest that steps a firm takes to defend one type of reputation may have unintended consequences for other types, depending on stakeholders' situational expectations.

Finally, we extend our contributions above with our supplemental analyses, not only by identifying violation severity as an additional critical factor that shapes stakeholders' situational expectations, but also by identifying the interrelationships between a firm's multiple reputations. We also make a methodological contribution with our novel media-based measures of a firm's capability and character reputations. Overall, we present a comprehensive theory and test of the complexities associated with the defense of a firm's multiple reputations in response to different violations, which opens many avenues for future research.

5.1 | Implications for future research

Our fundamental argument was that the effectiveness of a firm's response strategy depends on stakeholders' situational expectations. Drawing from established notions in the literatures on reputation and violations, we recognized that stakeholders' situational expectations are focused on the specific reputation judgment being made and on the nature of the violation. However, in supplemental analyses, we also revealed violation severity as another factor in stakeholders' situational expectations. Future research can consider additional factors that may influence stakeholders' violation sensemaking. For example, industry characteristics, peer behavior, organizational resources, or characteristics of firm leadership might influence stakeholders' situational expectations (Bundy et al., 2017). Additionally, we highlighted that capability and character reputations are two specific reputations that a firm may possess. However, stakeholders may have different situational expectations based on other types of reputation, including for a firm known as being innovative or competitively aggressive. Finally, we did not directly capture stakeholders' situational expectations in our empirical modeling. We encourage future research to consider how to measure these expectations, perhaps through survey-based measures, or through content analysis of stakeholder-specific communications. Overall, we see a number of opportunities stemming from our identification of this critical mechanism.

Our theory and results focused on stakeholders' short-term reactions to a violation. This is consistent with prior research and reflects the importance of firms' managing broad, initial reactions (Bundy & Pfarrer, 2015; Lamin & Zaheer, 2012), but it leaves open questions about the longer-term dynamics of reputation defense. For example, across all our models, accommodativeness is only positively related to capability reputation in the capability violation sample. This suggests that the benefits of accommodativeness, including its moral value, may not play out in practice. However, given our design, it may be that any harm associated with being accommodative is isolated to the short-term and that its effectiveness can change over time. Put plainly, a firm's accepting responsibility for a violation certainly leads to short-term negative perceptions (Bundy & Pfarrer, 2015), but it can also "normalize" loss and allow the firm and its stakeholders to move forward with an understanding of how best to repair the relationship (Bundy et al., 2017; Pfarrer, DeCelles, et al., 2008; Schlenker et al., 2001). Additionally, firms

may take corrective actions or fine tune their responses over time (e.g., Eury, Kreiner, Treviño, & Gioia, 2018). Consistent with theory, we believe firms' initial responses anchor stakeholders' reactions and are critical for understanding reputation defense (Bundy & Pfarrer, 2015). However, we encourage future research to focus on the time-based dynamics of the reputation defense process, and to consider if we might expect differences over the short-versus long-term.

Relatedly, our theory and results show that violations can reshape perceptions of both a firm's capability and character. In our empirical analyses, reputations display only limited temporal stability (as evidenced by same-type reputation correlations between the $(t - 1 \text{ year})$ and $(t + 7 \text{ days})$ time periods), and differences in stability across reputation types are also evident (as shown by the differences in the means and standard deviations between capability and character reputations across the time periods and samples). As such, our theory and findings provide some insight into the "stickiness" of a firm's reputations. For example, capability reputation judgments seem to be more dynamic than character reputations, particularly following capability violations. It may be that character reputations are built on deeper perceptions of the firm's behavioral tendencies (as opposed to its abilities and resources; Mishina et al., 2012) and thus are more stable than capability reputations. Or it may be that stakeholders find capability violations easier to interpret, and thus can adjust their expectations more confidently and frequently. We encourage future research to consider these dynamics in the reputation defense process (e.g., Sirsly & Lvina, 2019).

While not hypothesized, our first-stage results also reveal interesting implications in terms of how scholars might use a firm's multiple endowed reputations to predict its response strategy. In particular, the results show that a firm's multiple reputations may conflict with themselves in the firm's response strategy. For example, a firm's endowed character reputation $_{(t - 1 \text{ year})}$ positively predicts a more accommodative response strategy in the character violation context, but such a strategy is negatively related to a firm's subsequent character reputation $_{(t + 7 \text{ days})}$. These findings suggest that the forces that internally motivate a certain response (e.g., the desire to display character and integrity by being more accommodative) may actually serve to damage external perceptions along the same dimension. We encourage future research to consider the motives behind different response strategies, and how those motives might conflict with potential outcomes (cf., Bundy & Pfarrer, 2015; Chakravarthy et al., 2014).

Further, while we did not provide hypotheses about general reputation judgments or about the interrelationships between a firm's multiple reputations, we did consider these elements in our supplemental analyses. In particular, we showed that more accommodative response strategies are negatively related to stakeholders' general reputation judgments in capability violation contexts, and that there is evidence for a one factor solution to reputation comprised of character, capability, and general judgments. While we demonstrate valid reasons for delineating a firm's multiple reputations independently, it does suggest some limits to the value of studying reputation as multiple, specific concepts versus an overarching concept. On the one hand, delineating specific reputations allows for more theoretical precision, while focusing on an overarching concept risks "a meaningless average of different assessments that is not assignable to any particular audiences" (Jensen, Kim, & Kim, 2012, p. 144). On the other hand, our findings showed consistency across reputation types, and there is value to the theoretical and empirical parsimony that comes with more generalized concepts (e.g., it would be quite taxing—if not impossible—to capture a firm's many different reputations across all audiences). Thus, we encourage future research to continue this "general

vs. specific" debate in light of our arguments and findings, which provide evidence for both sides.

Finally, in measuring firm reputation, we relied on general media coverage from the U.S.'s 50 largest newspapers. However, we did not explicitly consider the role of specific media outlets that may target different audiences or focus on unique concepts. For example, certain newspapers could be perceived as more concerned with capability-based news, while others may focus on more character-based issues. However, categorizing one outlet as "capability only" would confound any character-based coverage provided by an outlet, and vice versa. It would also require "binary" judgments from researchers in terms of classifying certain newspapers as (not) relevant for certain reputation judgments. Such a coarse-grained approach would naturally result in a loss of nuance across media outlets. For example, in our sample, we find outlets such as the *New York Times* covered capability-based news (e.g., financial outcomes) as well as character-based news (e.g., environmental issues) on the same firms. In the end, we believe that this overlap in types of coverage is better captured not by the specific newspapers in our sample, but in the words that they use as reflected in our measures of capability and character reputation. And as noted above, we found a high interclass correlation across outlets in our sample, suggesting only minor differences based on source. However, we would encourage future research to consider this issue in more detail, perhaps using surveys of readers or some other type of primary data to get at reputation assessments and media use.

In conclusion, this study contributes to a nascent stream of research that examines the complexities associated with the defense of a firm's multiple reputations. From an organizational perspective, an enhanced awareness of the tradeoffs associated with multiple reputations can improve a manager's ability to defend these reputations when they are threatened. From a stakeholder perspective, understanding how each reputation motivates their reactions can allow stakeholders to recognize potential biases when making judgments in response to a violation. Such considerations may result in increased benefits for society as firms and stakeholders act more proactively together when responding to violations.

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DATA AVAILABILITY STATEMENT

Research data are not shared.

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SUPPORTING INFORMATION

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