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## **Legitimacy-as-Feeling: How affect leads to vertical legitimacy spillovers in transnational governance**

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# Legitimacy-as-Feeling: How Affect Leads to Vertical Legitimacy Spillovers in Transnational Governance

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# **Legitimacy-as-Feeling: How Affect Leads to Vertical Legitimacy Spillovers in Transnational Governance**

## **ABSTRACT**

Transnational governance schemes (TGSs) are interorganizational networks of public and/or private actors that jointly regulate global public policy issues, such as the prevention of human rights violations and the protection of ecosystems. Considering that TGSs mainly address issues of public concern, the general public represents a major source of legitimacy in transnational governance. We theorize how members of the general public, whom we conceptualize as intuiters, apply heuristics to bestow legitimacy on TGSs. Given the difficulty of assessing TGSs, we argue that intuiters draw on affect-based responses towards a TGS's better-known network affiliates, such as participating business firms, to judge the legitimacy of the TGS as a whole. This substitution produces a "vertical" legitimacy spillover. More specifically, we examine the heuristic process of judgment underlying vertical spillovers in TGSs and derive implications for the legitimacy construct and the analysis of spillover phenomena.

Keywords: affect, heuristic judgment, legitimacy, spillover, transnational governance

In January 2009, a coalition of 80 civil society organizations accused the Chinese oil company and United Nations Global Compact (UNGC) affiliate PetroChina of violating the Compact's general principles of business practice (Investors Against Genocide, 2009). Organizations that join the UNGC commit themselves to aligning their business operations with the Compact's principles, which are related to human rights, labor standards, the environment, and anti-corruption policies (Rasche, 2009). According to the charges against PetroChina, the company had failed to contest human rights violations in Darfur, where it had been operating since the early 2000s. Up to that point, the company had been profiting from its strong financial links to the Sudanese government, which had been accused of genocide (The Economist, 2007). Thus, PetroChina's perceived disregard of the Compact's second principle (businesses ought to "make sure that they are not complicit in human rights abuses") aggravated by mass-media coverage (e.g., The Huffington Post, 2009) and divestment campaigns (e.g., CorpWatch, 2005), damaged the company's standing and also negatively affected the legitimacy of the UNGC in the public eye (Global Compact Critics, 2009).

The UNGC was launched in 2000 and its 11,728 affiliates (as of September 2013) make it the world's largest transnational governance scheme ("TGS" hereafter). A TGS is a cross-border interorganizational network whose affiliates include national governments, non-governmental organizations (NGOs), and private business firms. TGSs devise, negotiate, and implement regulations of global policy issues, either in private-actor associations or hybrid public-private partnerships (Hale and Held, 2011; Waddock, 2008). The dynamics of these partnerships, such as in the PetroChina case, reveal that TGSs and their organizational constituents are interdependent in terms of legitimacy. That is, the perceived legitimacy of a TGS can be impaired by the illegitimate actions of its network affiliates. However, TGS legitimacy can also be boosted through an association with well-respected and legitimate affiliates. For example, by joining the UNGC, established NGOs such as Amnesty International, Transpar-

ency International, and Human Rights Watch provided credibility and legitimacy to this TGS in its nascent stages (Baccaro and Mele, 2011).

Legitimacy refers to the degree to which beholders perceive an organization as being congruent to social norms and standards (Bitektine, 2011; Suchman, 1995; Tost, 2011). The legitimation process endows an emergent organization, such as a TGS, with ideational and material support (e.g., access to human and financial resources), both of which are fundamental to its regulatory capacity (Aldrich and Fiol, 1994; Suchman, 1995). Although management scholars have extensively analyzed the types and structural characteristics of TGSs (e.g., Gilbert et al., 2011; Waddock, 2008), few studies have discussed the complex process by which TGSs and other network-based organizational forms of global governance gain and maintain legitimacy (Casey and Scott, 2011; Quack, 2010). In contrast to national or international governmental organizations, which are legitimized through the authorization of their governmental bodies by the electorates or by their member states, TGSs largely lack formal entitlement or democratic endorsement. For that reason, TGS legitimacy can be contested by the general public (Mena and Palazzo, 2012; Palazzo and Scherer, 2006).

However, the general public has limited insights into the mechanisms that underlie the global governance system (Stone, 2008), as TGSs are discussed almost exclusively in expert circles such as international politics, the media, or academia (Ruggie, 2004). Therefore, TGSs may appear opaque to the general public and lack the comprehensibility and taken-for-grantedness that normally leads to cognitive legitimation, which is the most important and enduring source of legitimacy for organizations (Aldrich and Fiol, 1994; Cashore, 2002; Deephouse and Suchman, 2008; Suchman, 1995). Attaining cognitive legitimacy is crucial for TGSs to help them exert regulatory influence in important areas such as environmental protection and the social responsibility of firms (Bernstein and Cashore, 2007; Cashore, 2002). This key issue—how TGSs attain cognitive legitimacy (“legitimacy” hereafter) among the general public—is the focus of our article.

Specifically, we extend recent research on the micro-foundations of social judgment formation (Bitektine, 2011; Mishina et al., 2012; Tost, 2011) to develop a theory of how the legitimacy of TGSs is granted or contested by the general public. In contrast to experts who actively discuss and assess TGSs, such as policy-makers, journalists, and NGO activists, we argue that the general public does not consciously consider TGSs. We theorize that the public instead relies on heuristics, mental shortcuts that guide intuitive judgment (Kahneman and Frederick, 2002; Shah and Oppenheimer, 2008), to bestow legitimacy on a TGS. We conceptualize members of the general public as “intuiters” (Dane and Pratt, 2007) and suggest that, in contrast to expert “evaluators,” intuiters draw on the observable associations between a TGS and its better known network affiliates to judge the legitimacy of a TGS as a whole. This substitution produces a “bottom-up vertical” legitimacy spillover, in which legitimacy is transferred from a TGS affiliate to the overarching TGS, without the legitimacy of the former being affected (Kostova and Zaheer, 1999).

Most extant research on spillovers suggests that legitimacy transfers are influenced by the degree of similarity between organizations within a given industry or organizational population (Desai, 2011; Kuilman and Li, 2009; Yu et al., 2008). The underlying rationale is that intuiters confer legitimacy to organizations that they can typify into an established cognitive category, that is, a class of organizations that are similar in terms of perceived typical features (Berger and Luckmann, 1967; Bitektine, 2011; Meyer and Rowan, 1977). Similarity thus functions as a heuristic that helps intuiters construct legitimacy transfers through classification (Kostova and Zaheer, 1999).

However, we theorize that the similarity heuristic does not explain the spillover effects of TGS legitimation for two major reasons. First, past research has shown that negative spillovers have a stronger effect on legitimacy than positive spillovers (Barnett and Hoffman, 2008; Kostova and Zaheer, 1999). In a transnational context, this means that the negative impact of, for example, a corporate scandal is comparatively larger than the positive impact of a

corporate best practice of similar magnitude. Yet, models of classification based on similarity assessments have not fully considered the greater salience of negative spillovers (Pfarrer et al., 2010; Zavyalova et al., 2012). Second, the constituent components of TGSs, such as business firms and NGOs, may differ in several features and therefore may not always be directly comparable. Thus, intuiters cannot judge TGSs on the basis of similarity cues but need to employ another type of heuristic.

Drawing on the notion that categories can be understood in terms of a pre-existing *ideal* that represents expectations against which salient TGS affiliates are contrasted (Barsalou, 1991; Lakoff, 1987), we theorize that intuiters use their *affective* judgments about affiliates to bestow legitimacy on the TGS as a whole. Our theorizing implies that the bottom-up vertical legitimacy spillover does not derive from a similarity heuristic but from an affect heuristic, namely, from intuiters' relying on positive or negative feelings to reach a judgment (Finucane et al., 2000; Slovic et al., 2002). For example, a TGS affiliate that is involved in a scandal is likely to weaken the legitimacy of that TGS because of the negative spillover that will spring from the intuiters' unfavorable affective reactions (e.g., shame, disappointment, or outrage), not because that affiliate shares organizational features with the TGS. Conversely, the publicly approved activities of a TGS affiliate will generate favorable reactions (e.g., admiration, joy, or pride) and consequently produce a positive legitimacy spillover. Further, we theorize that the affect heuristic accounts for an asymmetry in the intensity of negative versus positive spillover effects (Kostova and Zaheer, 1999). This reveals that under certain conditions, positive affect prevails over negative affect of equal magnitude.

This paper makes three primary contributions. First, we add to recent research on transnational governance (Djelic and Quack, 2008; Scherer and Palazzo, 2011) by developing a novel theory of the legitimation process in the context of TGSs. Second, by focusing on vertical spillovers in TGSs, we offer a new explanation of multi-level transfers of legitimacy which have so far received little attention among management scholars (Deephouse and

Suchman, 2008). Third, through the *legitimacy-as-feeling* perspective and our explication of evaluators' and intuiters' contrasting modes of judgment, we expound on the affective-heuristic underpinnings of legitimacy. We clarify that taken-for-grantedness does not necessarily derive from assigning an organization to a specific category (Bitektine, 2011; Meyer and Rowan, 1977; Zuckerman, 1999); instead, it emanates from forming nonconscious associations between the organization and its environment (Pfarrer et al., 2010; Tost, 2011).

### **TGSs AS INTERORGANIZATIONAL NETWORKS**

Transnational governance schemes (TGSs) are interorganizational networks whose affiliates are private and/or public actors that pool their interests and resources (Provan et al., 2007). The term “transnational” describes interactions that cross national borders and, in contrast to “international” agreements between public authorities, encompass a variety of private actors, such as business firms and NGOs (Keohane and Nye, 1974). In turn, the term “governance” refers to the co-regulation of global policy issues, such as the protection of human rights, the enforcement of social and environmental standards, or the fight against corruption. TGS affiliates collaborate in a non-hierarchical fashion to fill governance gaps and jointly produce public goods with or without the support of public authorities (Hale and Held, 2011).

The scope of TGSs is vast. Vogel (2008) counted over 300 transnational private business schemes governing major global economic sectors and policy issues, in addition to a plethora of hybrid schemes involving both private and public organizations (Hale and Held, 2011; Mena and Palazzo, 2012; Waddock, 2008). Examples of TGSs include the Global Reporting Initiative, which provides global frameworks for sustainable corporate reporting (Etzion and Ferraro, 2010); the Forest Stewardship Council, which offers certification procedures for the responsible management of timber (Scherer and Palazzo, 2007); the Equator Principles Association, which issues guidelines for the implementation of social and environmental principles in large infrastructure projects (Haack et al., 2012); and the UNGC, which implements general principles in the areas of human rights, labor standards, the environment,



and anti-corruption (Rasche, 2009). The pervasiveness of TGSs and their roles in offering solutions to socio-political problems has boosted TGS research among management and organizational scholars (Djelic and Sahlin-Anderson, 2006; Scherer and Palazzo, 2011) and has consequences for the general public's perceptions and judgments of TGSs (Cashore, 2002).

The networks that make up TGSs have two distinctive features that influence the general public's perceptions and judgments of these entities. First, as elaborated further below, most people have little direct experience with a particular TGS and generally lack expertise in global governance issues (Stone, 2008). In contrast, the affiliates of a TGS, such as multinational companies, are often more visible and better known to the general public than the TGS as a whole and thus receive more attention (Ahrne and Brunsson, 2008). Second, heterogeneity is a central characteristic of TGSs. While the majority of global organizations "are generally based on similarity" (such as companies in a given industry association) (Ahrne and Brunsson, 2005, p. 436), TGS affiliates have diverse organizational characteristics, possess different resources, and join a TGS for various reasons, such as to enhance their own reputations, to represent the public interest, or to pursue a "good cause." For example, the more than 11,500 affiliates of the UNGC include private business firms (multinational corporations as well as small and medium-sized companies), academic institutions, city authorities, public sector organizations, business associations, foundations, and labor and civil society organizations, all of which are geographically clustered in more than 90 local networks (UN Global Compact, 2013b).

Given the heterogeneity among TGS affiliates and the general public's lack of familiarity with TGSs, we argue that typical members of the public do not evaluate TGSs actively. Instead, they bestow legitimacy heuristically by assessing the essence and activities of more accessible TGS affiliates. In the next section we theorize about the mental processes underlying the general public's intuitive judgments of TGSs. This micro-foundation enables us to offer a comprehensive account of spillover phenomena in the context of TGSs.

## **EVALUATORS AND INTUITERS: WHO THEY ARE AND WHY THEY MATTER**

Recent research on social judgment formation (Bitektine, 2011; Mishina et al., 2012) utilizes insights from cognitive and social psychology to complement institutional perspectives on legitimacy (Deephouse and Suchman, 2008; Suchman, 1995). Most studies in this literature stress that legitimacy is subjectively bestowed and results from the coalescence of perceptions that develop in the minds of beholders (Johnson et al., 2006; Tost, 2011; Zimmerman and Zeitz, 2002). Although scholars have acknowledged the significance of both conscious, deliberate and nonconscious, intuitive processes in the formation of social judgments, the latter have received limited attention. We address this gap by elaborating on the role of heuristics and introducing the concept of the *intuiter*, which we distinguish from the *evaluator* (Bitektine, 2011). Table 1 provides a summary of key differences between these two groups.

### **[Table 1 about here]**

Our theorizing about TGS legitimation and the roles of intuiters and evaluators is predicated on the following assumptions: First, considering that most members of the general public share a common “thought world,” and value an organization in terms of its broader societal impact, we treat intuiters as a homogenous group (Lamin and Zaheer, 2012, p. 47; see also Djelic and Quack, 2010; Thornton et al., 2012; Zerubavel, 1997). Second, we base our theorizing on a two-system model of reasoning and distinguish fast and automatic “System 1” processing from slow and deliberative “System 2” processing (Kahneman, 2011). There is significant evidence in judgment and decision-making (Kahneman, 2011; Sloman, 2002), social cognition (Chaiken and Trope, 1999; Petty and Cacioppo, 1986; Fiske and Taylor, 2008), and neuroscience research (Greene et al., 2001; Lieberman, 2003) that System 1 processing constitutes the baseline mode for intuiters’ mental operations (Evans, 2008), in particular with respect to the legitimation of complex organizations such as TGSs (Bitektine, 2011; Kostova and Zaheer, 1999; Tost, 2011; see also Thornton et al., 2012).

To be clear, System 1 and System 2 are idealized conceptions of complex mental processes which “take place somewhere in between” (Fiske and Taylor, 2008, p. 49) and which are deployed for the sake of comprehensibility (Kahneman, 2011). However, because ideal types reduce the complexity of the “real world,” they are useful for theory development and explanation in the social sciences (Doty and Glick, 1994; Gibbard and Varian, 1978; Weber, 1968). Following this logic, we contrast the deliberate, conscious, and mentally effortful reasoning (System 2; evaluator) from passive, nonconscious, and mentally effortless intuition (System 1; intuiter) to better illuminate the under-researched heuristic foundation of social judgment formation.

### **Evaluators**

Evaluators actively assess TGSs and other complex networks of global organizing because the issues these networks address are personally important to them (Bitektine, 2011). Examples of evaluators include policy-makers, academics, NGO activists, TGS officials, and journalists (Cashore, 2002). The mode of reasoning through which evaluators make TGS assessments is dominated by System 2 processes, which are rule-governed, rather slow, and deliberate (Gilovich and Griffin, 2010; Kahneman, 2011). In being deliberate, evaluators gradually build a stock of expertise that allows them to assess the essence and activities of TGSs carefully (Suchman, 1995).

Of course, experts may rely on System 1 operations in “high-validity environments,” which are characterized by orderly settings and routinization. In these situations, experts may draw intuitively on their experiences to assess and complete complex tasks (Kahneman, 2011, p. 234-244; Kahneman and Klein, 2009). For example, an emergency room physician may use heuristics while performing a set of complex surgeries in a short period of time (Croskerry, 2002), while a successful investor may rely on a “gut feeling” when making certain financial decisions (Rubaltelli et al., 2010). However, evaluators in a TGS context operate in a “low-validity environment,” where events are highly idiosyncratic, insufficiently predictable

(Kahneman and Klein, 2009, p. 523), and often politically contested (Bartley, 2007; Gilbert et al., 2011). This complex environment, coupled with evaluators' high degree of accountability and involvement with TGSs, requires that they develop a deliberative and non-habitualized mode of reasoning (Kunda, 1990; Tetlock, 1983, 1992). Thus, we argue that evaluators are more likely to rely on System 2 than System 1 processing to judge TGSs.

The judgments that evaluators make about TGSs can be either positive or negative (Bitektine, 2011). The advocates of TGSs—typically TGS officials, scholars, and policy experts (Ruggie, 2004)—evaluate TGSs favorably and promote them publicly by stressing the TGSs' associations with legitimate entities that are well-known and respected. Established organizations, such as the United Nations, or credible and well-known NGOs, such as Amnesty International, rate high in legitimacy. The critics of TGSs, on the other hand—typically NGO activists or skeptics in academia (e.g., Sethi and Schepers, 2011)—assess TGSs unfavorably and discredit them by drawing attention to their affiliations with illegitimate entities. For example, critics of the TGS Equator Principles Association name and shame any affiliate that finances infrastructure projects with a detrimental impact on local communities, such as mining and tar sands projects (BankTrack, 2013). Through the positive or negative associations they draw between a TGS and its affiliates, evaluators can influence the legitimacy of the TGS as a whole (Cashore, 2002). Crucially, evaluators also publicize the negatively or positively assessed associations they detect between a TGS and selected affiliates, thereby providing intuiters with important validity cues that greatly affect how the latter judge a TGS (Rao et al., 2001; Tost, 2011).

### **Intuiters**

Most members of the general public, in their roles as citizens, consumers, or employees, have neither a crystallized notion of the legitimacy of a particular TGS nor the wherewithal to engage with TGSs directly (Cashore, 2002; Stone, 2008). We argue that such members of the public operate as *intuiters* when they assess TGSs and other complex forms of organizing

(Dane and Pratt, 2007). Considering that TGSs mainly deal with issues of public concern, such as the protection of global ecosystems or the prevention of human rights violations, the general public constitutes a primary source of TGS legitimacy (Casey and Scott, 2011; Cashore, 2002; Deephouse and Suchman, 2008). Thus, how intuiters conceive of and assess TGSs is pivotal to understanding the legitimation of this novel form of global organizing (Cashore, 2002; Hooghe and Marks, 2009). Furthermore, just as evaluators provide intuiters with validity cues, intuiters' legitimacy judgments also influence evaluators' judgments. This occurs either directly through the electoral process (Downs, 1957) or more subtly and gradually through processes of socialization, persuasion, and norm diffusion (Burstein, 2003; Deitelhoff, 2009; Finnemore and Sikkink, 1998).

However, in contrast to evaluators, who engage in conscious and mentally effortful deliberation of TGSs, intuiters often have little direct interest in issues of transnational governance and little familiarity with TGSs (Stone, 2008). As a result, intuiters' initial perceptions of a TGS's legitimacy are likely to be undetermined (Bitektine, 2011). Evidence from public opinion research supports the point that intuiters are uninformed about global issues, lack background knowledge on TGSs, and assess them intuitively. For instance, although many intuiters are concerned with global climate change, they often have an unclear image of the underlying causes (Dunlap, 1998; Lorenzoni and Pidgeon, 2006; Nisbet and Myers, 2007). Further, survey research suggests that intuiters use contextual cues—grounded in political ideology or elite endorsement—to reach judgments about international trade (Díez Medrano and Braun, 2012; Hiscox, 2006) and foreign policy (Berinsky, 2007; Gelpi, 2010). Unlike evaluation, intuition involves relatively little mental effort, so intuiters validate TGSs and other complex forms of organizing in a non-discursive and automatic way (Dane and Pratt, 2007). In the terminology of the two-systems model, intuiters judge the legitimacy of TGSs heuristically through associative System 1 processes, which operate “automatically and quickly, with little or no effort and no sense of voluntary control” (Kahneman, 2011, p. 20).

In cognitive psychology, Daniel Kahneman and his colleagues (Kahneman, 2003, 2011; Kahneman and Frederick, 2002) have developed a general model of System 1 reasoning which is inclusive of a set of heuristics identified in earlier work (Tversky and Kahneman, 1974). We apply this model to explain intuiters' heuristic bestowal of legitimacy on TGSs. Specifically, we suggest that when lay people, or intuiters, assess a legitimacy subject, they substitute the target attribute with a heuristic attribute that can be brought more readily to mind. Kahneman and Frederick (2002) refer to the replacement of attributes as "attribute substitution." For example, intuiters substitute a judgment about the likelihood that an unknown person belongs to a certain group (target attribute) with a judgment of how much that person resembles a typical group member (heuristic attribute) (Tversky and Kahneman, 1982). Judgment formation is therefore governed by attribute substitution when (1) the target attribute is relatively inaccessible, (2) a semantically or associatively related attribute (the heuristic attribute that serves as a potential substitute) is highly accessible, and (3) the attribute substitution occurs nonconsciously (Kahneman and Frederick, 2002). According to this perspective, intuition is not an outcome of specific experience and skill but is driven by lay people's use of simplifying shortcuts (Kahneman and Klein, 2009; Nisbett and Ross, 1980; see also Hertwig and Herzog, 2009). Thus, attribute substitution is a process that reduces mental effort in the sense that relatively difficult judgments are substituted by conceptually related but less effort-demanding judgments (Kahneman, 2011; Shah and Oppenheimer, 2008).

In sum, we posit that intuiters have relatively little direct access to TGSs. However, they often have more direct access to specific TGS affiliates, such as business firms, which are frequently mentioned in the media. We therefore suggest that attribute substitution influences how intuiters judge and bestow legitimacy onto a largely unknown TGS. Below, we expand on how intuiters legitimize TGSs and explore the role of affect-based legitimacy spillovers.

### **LEGITIMACY SPILLOVERS: HOW NETWORKS DIFFER FROM CLASSES**

A legitimacy spillover occurs when the legitimacy of a primary subject (the originator of the spillover) alters the legitimacy of a “cognitively related” secondary subject (the recipient of the spillover) without altering the former’s legitimacy (Kostova and Zaheer, 1999, p. 75). *Horizontal* legitimacy spillovers transfer legitimacy between subjects that operate at the same organizational level, such as between two subsidiaries of a parent company. *Vertical* legitimacy spillovers span more than one level, such as between a subsidiary and the parent company. Whereas a *positive* spillover enhances the legitimacy of the secondary subject, a *negative* spillover reduces the recipient’s legitimacy. Spillovers tend not to be symmetric in their effects: Negative spillovers have a stronger effect on legitimacy than positive spillovers (Kostova and Zaheer, 1999).

Kostova and Zaheer (1999) suggest that the main cognitive mechanism that underlies legitimacy spillovers is the degree of similarity between a legitimacy subject (such as a multinational oil company) and a prototype (the mental summary representation of several multinational oil companies) that one uses for assessing the likelihood of that subject’s categorical membership (Tversky and Kahneman, 1974). Intuiters can thus use similarity in organizational features as a heuristic to bestow legitimacy to an unknown entity under certain circumstances (Bitektine, 2011). There are, however, two problems with relying on similarity when analyzing legitimacy spillovers in TGSs. First, intuiters cannot rely on similarities to classify subjects and generate legitimacy spillovers in a TGS because TGSs do not represent clearly defined classes with comparable members. Instead, a TGS represents a fluid, heterogeneous network, making it difficult to establish a similarity-based category that includes both the overarching TGS and its affiliates. Second, even if similarities are perceived between a TGS and its affiliates, this cannot fully explain the greater relative impact of negative spillovers onto a TGS. To address these issues, we take a *legitimacy-as-feeling* perspective on legitima-

cy spillovers in TGSs by contrasting spillovers within classes to spillovers within networks. Table 2 provides a summary of the class–network comparison.

**[Table 2 about here]**

### **Legitimacy Spillovers within Classes**

A primary assumption in the spillover literature is that industries and organizational populations are mentally represented as cognitive categories (Barnett and King, 2008; Desai, 2011; Goins and Gruca, 2008; Jonsson et al., 2009; Li et al., 2007; Kuilman and Li, 2009; Yu and Lester, 2008; Yu et al., 2008; Zavyalova et al., 2012; Zimmerman and Zeitz, 2002). Cognitive categories “are based on perceptions of similarity” (Vergne, 2012, p. 1030) and describe *classes* of organizations whose shared features are perceived as typical of the category (Porac and Thomas, 1990). In classes, the prototype embodies the most commonly observed traits among all members of that category in that it represents the *central tendency* of comparable category members (Mervis and Rosch, 1981). That is, intuiters automatically form a summary concept of those features that are representative of an average category member (Porac and Thomas, 1990). Therefore, the degree of similarity between an organization’s features and the typical features of a category can serve as a mental shortcut that allows intuiters to predict whether that subject belongs to that class (Kostova and Zaheer, 1999). For example, the companies BP and Shell share several features (e.g. organizational structure, type of ownership, organizational goals, and governance systems) with the class “multinational oil company” and are therefore perceived as typical and legitimate members of that class.

Classes are hierarchically structured as taxonomies, meaning that subcategories (e.g., “oil company”) inherit the features of the more general, superordinate category (e.g., “company”) by being included in that class (Porac and Thomas, 1990). Class inclusion is reflected in the “is-a” relationship between a member of a class and that class, as in “Shell *is a* multinational oil company” (Collins and Quillian, 1969). It follows that classes are represented by a



well-defined “tree” or “stem-and-branch” structure, where subcategories belong to only one immediate superordinate category (Porac et al., 1989). Spillovers in classes therefore can be defined as bottom-up vertical when legitimacy is transferred from a member of that category to the category as a whole, as from BP to the overarching industry. If a legitimacy transfer takes place in the reverse direction from the industrial category to a member of that category, the ensuing spillover is top-down vertical. In addition, both negative and positive legitimacy spillovers have been found to be stronger for organizations that share similarities with the primary legitimacy subject (Jonsson et al., 2009; Kuilman and Li, 2009). Such findings provide evidence for the notion that intuiters simplify their judgments of given organizations (legitimacy as the target attribute) to the degree that they are similar to a primary organization (similarity as the heuristic attribute). Overall, the rationale for similarity-based attribute substitution in classes of organizations has been corroborated by a body of research on legitimacy spillovers and transfers of related social judgments (Barnett and King, 2008; Desai, 2011; Jonsson et al., 2009; Kuilman et al., 2009; Li et al., 2007; Yu and Lester, 2008; Yu et al., 2008).<sup>1</sup>

### **Legitimacy Spillovers in Networks**

Above, we argued that similarity-based attribute substitution offers a plausible explanation for legitimacy spillovers in classes of organizations. The question is whether this also applies to networks of organizations, and to TGSs in particular. A TGS affiliate is not a member of a group of similar organizations but part of a larger collection of dissimilar organizations. In this way, a network affiliation resembles a “part-of” relationship in which category members are constitutive parts of a larger whole (Winston et al., 1987). For example, because BP is a member of the oil industry, it is appropriate to say, “BP is an oil company.” Yet, it is not ap-

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<sup>1</sup> We prefer the term “similarity heuristic” and “similarity-based” attribute substitution to the term “representativeness heuristic” because representativeness has a twofold and thus ambiguous meaning (Kahneman and Frederick, 2002, p. 73). First, intuiters use the average of similar members (the prototype) to mentally *represent* categories. Second, representativeness also describes the tendency of intuiters to use the *similarity* between a legitimacy subject and a prototype as a heuristic attribute for assessing the *likelihood* of categorical membership, that is, the target attribute of legitimacy (Kostova and Zaheer, 1999).

appropriate to say, “BP is a TGS,” because BP is not the same kind of entity as a TGS (Winston et al., 1987). Further, a TGS may subsume a variety of private and public actors that are not directly comparable, which makes categorical inference based on similarity difficult. It follows that the mental representation of a TGS network is not based on the well-ordered and feature-based “stem-and-branch” hierarchy for classes (Durand and Paolella, 2013; Murphy, 2002), but on a loose and non-hierarchical web of diverse organizations structured around a social purpose.

Drawing on evidence that categories are defined by goal-derived or “ad hoc” elaborations of associations between traits (Barsalou, 1985; 1991) and that they are constructed “online” by relying on preexisting knowledge structures (Lakoff, 1987; Murphy, 2002), we argue that the categorical prototype for TGSs and other network-based forms does not represent a summary representation of comparable members. Rather, TGSs are legitimized as a category through intuiters’ appraisals of whether affiliates correspond to an abstract “ideal,” which describes sets of traits that intuiters regard as desirable (Barsalou, 1985; Burnett et al., 2005; Lakoff, 1987; Voorspoels et al., 2013).

Specifically, the ideal traits of an affiliate are not derived from a set of features which coalesce into a summary representation of a “typical” affiliate but from intuiters’ pre-existing knowledge structures. Considering that intuiters are primarily concerned with matters of public interest (Lamin and Zaheer, 2012), we posit that an intuiter’s model of an ideal affiliate is based on general notions of responsibility, fairness, and “good character” (Fehr and Gächter, 2002; Lange and Washburn, 2012). This argument is in line with social psychology research that depicts an ideal as being structured around a set of basic and universally available moral concepts involving generalized notions of care, fairness, liberty, loyalty, authority, and purity (Graham et al., 2013; Haidt and Joseph, 2007). These concepts are innate and form the building blocks for more specific, culturally shaped values (Haidt, 2007; Haidt and Joseph, 2004). That is, the ideal offers a baseline for judging all types of TGS affiliates in that it serves as a

“cognitive reference point,” setting up expectations against which affiliates are assessed (Evans and Green, 2006, p. 273; Lakoff, 1987; see also Tost 2011).

When an affiliate conforms to intuiters’ expectations of the ideal, intuiters perceive the affiliate as “good.” These positive feelings induce approach responses. Conversely, when an affiliate deviates from the ideal, intuiters perceive the affiliate as “bad” and respond with avoidance (Russell, 2003; Zajonc, 1980). Such appraisals are the basic units of meaning that intuiters assign to an affiliate (Smith and Ellsworth, 1985), and their significance is supported by evidence that “everything that one encounters is preconsciously screened and classified as either good or bad, within a fraction of a second after encountering it” (Bargh, 1997, p. 20; Bargh and Chartrand, 1999). This “affective primacy” (Zajonc, 1980) suggests that intuiters’ appraisals of TGS affiliates are beyond deliberative control and are generated through a fast and automatic System 1 process.

Because of automatic appraisals, typical and therefore legitimate affiliates of a TGS are not “average” affiliates but affiliates that possess traits which intuiters like.<sup>2</sup> It follows that the typicality of a TGS affiliate can vary, depending on the degree to which that affiliate is liked or disliked. A TGS affiliate that intuiters perceive to act in accordance with the ideal traits of a “model affiliate” is liked and judged as legitimate and therefore contributes to the entire TGS’s legitimacy. In turn, an affiliate that intuiters perceive deviates negatively from the ideal is disliked and deemed illegitimate, and therefore negatively affects TGS legitimacy. To return to our example from the introduction, PetroChina’s complicity in human rights violations in Darfur has been widely perceived to be inconsistent with idealized concepts of good character, and therefore triggered intuiters’ automatic feelings of harm and discontent, which damaged the Global Compact’s legitimacy (Graham et al., 2013; Haidt and Joseph, 2007). In

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<sup>2</sup> Findings in cognitive psychology corroborate the point that prototypicality can derive from desirability. For example, Burnett and colleagues demonstrate that the category of freshwater fish is not structured around similarities among different species but is determined by fishermen’s desire for a specific type of fish (Burnett et al., 2005; Kim and Murphy, 2011). Other examples of ideal-based categories based on an evaluative dimension include the ratings of trees (Lynch et al., 2000), birds, vegetables, fruits, and sports (Barsalou, 1985).

the case of PetroChina and other apparent “bad apples,” activated intuiters turn into intuitive prosecutors (Tetlock, 2002) who embrace punishment for cheaters and wrongdoers (e.g., the “strict father model” [Lakoff, 2002]). Thus, in contrast to class spillovers, network spillovers in TGSs stem from intuiters’ emotional reactions to the degree to which a prominent affiliate corresponds to the ideal, and not solely from an assessment of feature-based similarity. It is therefore necessary to juxtapose the similarity heuristic utilized in class spillovers with another proxy in order to more fully understand spillovers in TGSs and other network-based forms of organizing.

In line with recent research that has examined the role of emotion in organizations and institutions (Dane and Pratt, 2007; Elfenbein, 2007; Hodgkinson and Healey, 2008, 2011; Muller et al., 2014; Scott, 2008; Voronov and Vince, 2012), we argue that intuiters will utilize an *affect heuristic* (Slovic et al., 2002) to bestow legitimacy on TGSs. That is, legitimacy spillovers occur because intuitive assessments of an affiliate’s degree of congruence with the ideal are converted into affective responses to that affiliate. Those responses become accessible for intuiters to render a legitimacy judgment on the TGS by means of affect-based attribute substitution. In turn, the accumulation of attribute substitution is constitutive of TGS legitimation and the emergence of a valenced TGS category. Below, we explicate the role that affect plays in the TGS legitimation process.

### **VERTICAL SPILLOVERS IN TGSs: A LEGITIMACY-AS-FEELING PERSPECTIVE**

Above, we argued that intuiters’ judgments of a TGS involve an assessment of the degree to which TGS affiliates comply with expectations embodied in an ideal. In this section, we elaborate on how affect-based judgments about TGS affiliates serve as heuristic devices for intuiters to bestow legitimacy on a TGS. Specifically, we assert that affective responses towards TGS affiliates trigger bottom-up vertical legitimacy spillovers. We then posit that the strength of positive or negative affect accounts for variance in the valence and intensity of spillovers

(Proposition 1), and discuss a positive–negative asymmetry in spillover effects (Propositions 2a and 2b). Further, we specify the marginal effects of affect-based attribute substitution and explain how TGS legitimacy gradually grows until a saturation level of taken-for-grantedness is reached, as well as how TGS legitimacy declines until it reaches a threshold of stigmatization (Propositions 3a and 3b). Finally, we theorize how TGSs avoid negative affect and trigger positive affect by means of disassociating from tainted affiliates (Propositions 4a and 4b).

### **Affective Responses to TGS Affiliates**

Affect describes nonconscious bodily sensations and feelings of pleasure or displeasure with some degree of activation (Russell and Carroll, 1999). In turn, the affect heuristic describes the notion of relying on positive or negative affect in reaction to a stimulus in order to form a judgment (Slovic et al., 2002).<sup>3</sup> In principle, any perceptual input may elicit affective reactions in a judgment task (see Schwarz and Clore, 1983). However, we suggest that in the context of transnational governance, the most likely candidate for attribute substitution is an intuiter’s affective response towards salient affiliates of a TGS. As explicated above, the general public is typically not attuned to transnational issues and TGSs are infrequently featured in the media. Thus, most intuiters have comparatively little experience with TGSs and consequently have an incomplete mental picture of TGSs.

Yet, while the majority of transnational activities are “conducted in the quiet” (Ahrne and Brunsson, 2008, p. 161), intuiters often come into direct contact with specific TGS affiliates (e.g., as customers or employees) or receive indirect information from evaluators such as the general media, NGO activists, or the TGS affiliates themselves. For example, business firms that are associated with a particular TGS may actively publicize their affiliation through

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<sup>3</sup> We use affect as an umbrella term that refers to mood—an enduring yet diffuse state associated with no particular legitimacy subject and antecedent cause—and emotion, a more focused reaction that is related to a specific subject and a definitive cause (Elfenbein, 2007; Russell, 2003). Affect-based assessments can influence many kinds of judgments (Fazio et al., 1986; Fiske and Taylor, 2008; Forgas, 1995; Zajonc, 1980), including moral judgments (Haidt, 2001), consumer choices (Sinaceur et al., 2005), cost–benefit analyses (Finucane et al., 2000), risk perception (Loewenstein et al., 2001), investment decisions (McGregor et al., 2000; Rubaltelli et al., 2010), willingness to pay for public goods (Kahneman et al., 1999), judgments of value (Rindova and Petkova, 2007), and inferences of familiarity (Monin, 2003).

the certification of their plants, products, or services (Bernstein and Cashore, 2007). Likewise, TGS critics may raise attention to TGS affiliates' behaviors that they consider to be inconsistent with the goals of the overarching TGS. It follows that TGS affiliates and their actions may be readily accessible to intuiters. Intuiters' unconscious and automatic assessments of whether and to which degree affiliates comply with ideal-based conceptions gives rise to affective reactions which are then available for attribute substitution.

Attribute substitution based on affective responses to TGS affiliates meets the three boundary conditions for heuristic judgment we outlined above (Kahneman and Frederick, 2002): (1) the target attribute "legitimacy of a TGS" is relatively inaccessible to most intuiters, (2) affective reactions towards TGS affiliates serve as more accessible heuristic attributes, and (3) the automatic substitution process is not overridden by deliberate assessments. In other words, in affect-based attribute substitution, the mentally less effortful question, "How do I feel about this particular affiliate of this particular TGS?" substitutes for the more difficult question, "What is the TGS?" Thus, intuiters pay less attention to whether an affiliate and the TGS are characteristically similar (e.g. in size, structure, or function) than they use their own affective response to the affiliate to judge the legitimacy of the TGS. We therefore make the following formal argument to serve as the foundation for our legitimacy-as-feeling perspective:

*Intuiters' affective responses towards TGS affiliates trigger bottom-up vertical legitimacy spillovers onto a TGS.*

Below, we extend this argument to theorize about the valence and intensity of bottom-up legitimacy spillovers in TGSs.

### Spillover Valence and Intensity

In psychological research, valence and intensity have been consistently confirmed as the two central elements of affect (Cacioppo et al., 2000; Fiske and Taylor, 2008; Keltner and Lerner, 2010). *Valence* refers to whether an affective response to a stimulus is positive or negative, while *intensity* refers to the strength of an affective response (Russell, 2003). Because TGSs are networks, we expect the valence of an affective response toward a particular TGS affiliate to determine the valence of the legitimacy spillover onto the TGS as a whole. That is, we argue that positive affect (e.g., joy, gratitude, admiration, pride) toward a specific affiliate will result in a positive legitimacy spillover that increases the legitimacy of the TGS. Conversely, we expect that negative affect (e.g., anger, despair, outrage, guilt) toward a specific TGS affiliate will result in a negative legitimacy spillover that diminishes the legitimacy of the TGS. For example, the observable ties between the UNGC and those of its affiliates that are perceived to be involved in human rights violations (Investors against Genocide, 2009), environmental degradation (Global Compact Critics, 2010a, 2011), or political censorship (Deva, 2007) are likely to elicit negative affect among intuiters and to trigger a negative legitimacy spillover onto the UNGC. In contrast, the observable ties between the UNGC and those affiliates who engage in corporate best practices (Global Compact Network Italy, 2012) or that implement the UNGC's principles at an advanced level (UN Global Compact, 2010a) are likely to elicit positive affect among intuiters and result in a positive legitimacy spillover onto the UNGC.

Affective responses also vary in intensity; some are more subtle, others stronger. We posit that the degree of affective intensity accounts for different degrees of spillover intensity. For example, Lange and Washburn (2012) compare the public outrage at the 2010 Deepwater Horizon accident in the Gulf of Mexico with the tepid public reaction to multiple oil spills in the Niger Delta. They suggest that the dramatic explosion that killed several BP oil rig workers was geographically and psychologically more proximate to North American observers

than Shell's involvement in the massive but gradual environmental degradation of a remote African country. Following this logic, we argue that the affective responses of intuiters to a particular TGS affiliate and the subsequent negative spillover onto that TGS was stronger in the BP case than in the Shell case. Indeed, in the aftermath of the Deepwater Horizon accident, the UNGC had to respond to public criticism that BP, an affiliate of the Global Compact, had not been adequately vetted. In turn, the UNGC's affiliation with the controversial company called into question the UNGC's own legitimacy (Global Compact Critics, 2010a). The geographically and psychologically more distant oil operations of UNGC affiliate Shell, however, appear to have produced a negative legitimacy spillover of smaller magnitude.

This rationale also applies to the impact of positive affect. For example, UNGC affiliate Daimler has reported that it contributes to the fight against HIV/AIDS by offering its staff a comprehensive prevention and workplace program in South Africa, and by providing medical support to any of its staff's family members who have been affected by the virus (Ruggie, 2004). All else being equal (e.g., the extent of promotion in corporate communications), we therefore expect that the positive approval and ensuing legitimacy spillover onto the UNGC will be stronger than the spillover generated by a corporate engagement involving significantly lower investments in financial and human resources, such as a corporation's one-time monetary donation to a local charity.

*Proposition 1: The greater the affective response (positive or negative) to a TGS affiliate, the greater the bottom-up vertical legitimacy spillover (positive or negative) onto the overarching TGS.*

### **Positive–Negative Asymmetry in Spillover Effects**

Organizational studies of spillovers have found that negative events have a powerful effect on cognitively related organizations within the same industry (Barnett and King, 2008; Jonsson et al., 2009; Yu et al., 2008; Zavyalova et al., 2012). Kostova and Zaheer (1999) argue that



negative spillovers are stronger than positive ones, yet do not specify the rationale behind the asymmetry. Barnett and Hoffman (2008) suggest that the processes that underlie positive spillovers differ from those of negative spillovers, but do not elaborate on the kind of differences that could account for a valence-based asymmetry in the intensity of spillover effects. In this section we go beyond extant similarity-based accounts of legitimacy spillovers and offer a more nuanced perspective of these issues in the context of TGSs. We theorize why positive and negative events of objectively equal strength will produce legitimacy spillovers of subjectively unequal intensity.<sup>4</sup>

The concept of affect-based attribute substitution is essential for understanding the antecedents of both a *negativity bias* in affective responses to strong stimuli and of a *positivity bias* in affective responses to weak stimuli (Cacioppo and Gardner, 1999; Ito and Cacioppo, 2005; Peeters and Czapinski, 1990). With regard to the negativity bias, it is well established that negative stimuli have a stronger impact on judgments than positive stimuli of objectively equal intensity (Ito and Cacioppo, 2000; Kahneman and Tversky, 2000; Peeters and Czapinski, 1990). This asymmetry reflects a basic and pervasive fact of human nature. Similarly, in their reviews of the relevant literature, Baumeister et al. (2001) and Rozin and Royzman (2001), conclude that “bad is stronger than good” with regard to human judgments (Baumeister et al., 2001, p. 323).

However, various scholars have noted that at low levels of arousal, individuals typically pay more attention to positive stimuli than to negative stimuli of equal strength; that is, in such situations “good is stronger than bad” (Cacioppo and Gardner, 1999; Ito and Cacioppo, 2005). A negativity bias encourages individuals to avoid strong stimuli, such as potentially life-threatening situations, and enhances their chances of survival. A positivity bias fosters

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<sup>4</sup> In psychology, valenced stimuli are considered to have objectively equal strength when they are equivalent on an objective metric of value, such as money or temperature (Rozin and Royzman, 2001). However, stimuli of objective equal strength can produce unequal subjective reactions when framed as either a gain or a loss. For example, most people are more upset when they lose a specific amount of money than they are pleased when they gain the same amount (Kahneman and Tversky, 2000). Likewise, people tend to demand more when they sell an item than what they are willing to pay in order to obtain the same item (Kahneman et al., 1990).

learning and creativity and forms the basis of growth and well-being (Cacioppo and Gardner, 1999; Fredrickson, 2001; Peeters and Czapinski, 1990). Thus, the positivity bias manifests itself in the optimism that leads individuals to filter out weakly negative information and to believe they can achieve desirable outcomes (Armor and Taylor, 2002). Most people who have a positive baseline of expectations and affective reactions to weak stimuli are likely to be biased in a positive direction (Fiske and Taylor, 2008).

We therefore expect the impact of negativity to be greater for *higher* degrees of arousal and to produce comparatively stronger negative legitimacy spillovers onto TGSs. Conversely, we expect the positivity bias to dominate intuiters' attribute substitution for *lower* degrees of arousal, producing comparatively stronger positive legitimacy spillovers. For instance, we expect the negative spillover onto the UNGC to be stronger from intuiters' condemnation of UNGC affiliate BP's involvement in the Deepwater Horizon accident, during which several oil rig workers were killed, than the potential positive legitimacy spillover from intuiters' praise of BP had it acted swiftly and responsibly to save lives. In contrast, we expect a positivity bias to prevail when we compare Daimler's modest investment in a workforce health program related to the fight against HIV/AIDS in comparison to its potential divestment from that program. In sum, we posit that the strength of stimuli determines the relative impact of positive affect versus negative affect in intuitive judgment formation.

*Proposition 2a: Compared to strong positive stimuli of objectively equal strength, strong negative stimuli produce a more powerful affective response to a TGS affiliate and thus a greater legitimacy spillover onto the TGS.*

*Proposition 2b: Compared to weak positive stimuli of objectively equal strength, weak negative stimuli produce a less powerful affective response to a TGS affiliate and thus a smaller legitimacy spillover onto the TGS.*

### Marginal Effects and Threshold Levels

Propositions 2a and 2b discuss the relationship between intuiters' affective responses to TGS affiliates and a subsequent vertical legitimacy spillover. Below, we further explore the non-monotonic marginal effects of positive and negative affect-based attribute substitution on spillover intensity. These relationships are illustrated in Figure 1, which is a representation of a large set of single instances of affect-based attribute substitutions.

#### [Figure 1 about here]

The horizontal axis of Figure 1 depicts the *scale of affect* whose central point demarcates the areas of negative and positive valence. The more distal the points on the horizontal axis, the greater the strength of the cumulative affective response. Correspondingly, the vertical axis represents the *scale of legitimacy* with regard to a TGS. The origin indicates the threshold value of an undetermined legitimacy level where judgments switch from legitimacy to illegitimacy. The more distal the points on the vertical axis, the stronger the perception of legitimacy or illegitimacy (Devers et al., 2009; Elsbach and Sutton, 1992; Hudson, 2008). We consider “illegitimacy” equivalent to “negative legitimacy,” which refers to the strong disapproval of a comprehensible yet undesired entity or activity (e.g. the Mafia or environmental pollution).

The dashed line in Figure 1 illustrates a hypothetical, symmetric, and linear mapping of positive/negative affect on the legitimacy/illegitimacy scale. In contrast, in quadrant I of Figure 1, the substitution of affect for legitimacy is represented by an initially steep but then flattening gradient, meaning that positive affect-based attribute substitution has *diminishing marginal effects* on spillover intensity. Thus, for strong positive stimuli, an increase in the strength of positive affect results in a minimal increase in the legitimacy of the TGS. Importantly, approximating a zero gradient in quadrant I can be interpreted as the gradual saturation of legitimacy, equivalent to approaching an upper limit and achieving taken-for-granted

status (Aspara and Tikkanen, 2010; Pollock and Rindova, 2003). For example, the Forest Stewardship Council (FSC), a TGS for the responsible management of timber products (Scherer and Palazzo, 2007), and the Global Reporting Initiative, a TGS that institutionalized non-financial reporting practices, were initially unfamiliar to intuiters (Etzion and Ferraro, 2010). However, the steadily improving track records of several of their affiliates have nurtured an affirmative behavioral disposition and a “sense of obligation” towards them among intuiters (Casey and Scott, 2011, p. 89; Etzion and Ferraro, 2010). Ultimately, the accumulation of legitimacy due to positive affect will lead intuiters to perceive these TGSs as objective, desirable and taken-for-granted entities and endow them with ideational and material support (Djelic and Quack, 2008).

In contrast, an increase in the strength of negative affect towards a particular TGS affiliate increases TGS illegitimacy exponentially (Rozin and Royzman, 2001). In such cases, attribute substitution is characterized by *increasing marginal effects* on spillover intensity. Quadrant III of Figure 1 depicts an increasingly steeper affect–legitimacy gradient that approaches negative infinity. At these levels, intuiters perceive a TGS as stigmatized or “deeply flawed and discredited” (Devers et al., 2009, p. 155; Hudson, 2008). Intuiters may avoid the TGS and withhold vital resources, and their lack of support may lead to the TGS’s failure (Hamilton, 2006). For example, in the context of the organizational networks of multinational companies, the rapid increase in global accounting firm Arthur Anderson’s illegitimacy emerged from a bottom-up vertical spillover from one of its subsidiaries that handled Enron’s financial statements. As a result, intuiters’ perceptions of the parent corporation clashed irreconcilably with the ideal of a company that acts as a “good citizen” (Matten and Crane, 2005) and caused irreversible negative effects on the legitimacy of the firm’s businesses (Jensen, 2006). Likewise, tobacco firms that deliberately mislead the public in their ad campaigns, thus violating the conception of sincerity and truthfulness, threaten the integrity and appeal of their affiliated TGSs (Global Compact Critics, 2011a). Ultimately, in a situation of strong and per-

sistent illegitimate behavior, intuiters may actively resist a TGS and even engage in social change efforts (Tost, 2011; Voronov and Vince, 2012).

*Proposition 3a: In the case of positive affect, attribute substitution is characterized by decreasing marginal effects on spillover intensity until a threshold of taken-for-grantedness is reached.*

*Proposition 3b: In the case of negative affect, attribute substitution is characterized by increasing marginal effects on spillover intensity until a threshold of stigmatization is reached.*

Figure 1 also depicts the range of positivity and negativity biases. The area between  $-A$  and  $A$  (i.e., weak stimuli) is dominated by the positivity bias, as Proposition 2b asserts. In contrast, the areas to the right of  $A$  and left of  $-A$  (i.e., strong stimuli) are primarily influenced by the negativity bias, as Proposition 2a asserts. At the level of  $-A$  and  $A$ , the effects are equally strong: Negative and positive affect substitute the same degree of legitimacy ( $L$ ) and illegitimacy ( $-L$ ).<sup>5</sup>

In summary, we argue that a TGS becomes increasingly taken for granted through sustained positive affect-based attribute substitution. Conversely, a TGS becomes illegitimate, stigmatized, and potentially defunct through the accumulation of negative affect-based substitution. It is the threat of its demise, however, that may lead a TGS to disassociate itself from affiliates that engender negative affect from intuiters. At the same time, disassociation offers TGSs an opportunity to actively garner positive affect. We discuss these implications in our final section below.

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<sup>5</sup> Please note that figure 1 hypothesizes a concave curve shape in quadrant I and quadrant III and is thus different from the value function in prospect theory which is described by concavity for the domain of gains but by *convexity* for the domain of losses (Tversky and Kahneman, 1981). The reason for this discrepancy is that prospect theory theorizes the dominance of a negativity bias while Figure 1 models the prevalence of both a positivity and negativity bias.

### **Disassociation from Affiliates**

An important implication of affect-based, bottom-up legitimacy spillovers in TGSs is the possibility of a TGS strategically devising measures and policies to shield itself from negative legitimacy spillovers (e.g., Jensen, 2006; Sullivan et al., 2007; Yu et al., 2008). By reducing the perceived linkages to a troubled organization, a TGS builds “mental fences” that reduce the risk of erroneous categorization among intuiters (King et al., 2002, p. 399; Yu et al., 2008). A TGS can also utilize sanctions and exclusion mechanisms to disassociate itself from offending affiliates and safeguard its legitimacy. For instance, the UNGC’s integrity measures include the ability to delist affiliates that misuse their association with the Global Compact, fail to comply with the Compact’s reporting requirements, or refuse to engage in dialogue on “credible allegations of systematic or egregious abuse of the Global Compact’s overall aims and principles” (UN Global Compact, 2013a). Indeed, as of September 2013, over 4,181 firms had been expelled from the UNGC. Likewise, the FSC has established a “Policy for the Association of Organizations with FSC” which bans the misuse of the FSC label for third parties engaged in “unacceptable activities” such as illegal logging. The FSC also employs a disassociation mechanism that prescribes several actions for terminating contractual relations with a deviator (Forest Stewardship Council, 2011, p. 4).

We argue that downplaying or diverting the connection to a troubled affiliate (“weak disassociation”) reduces intuiters’ negative affective responses, while cutting linkages to a troubled affiliate (“strong disassociation”) may even change the valence of intuiters’ affective responses, i.e. turn negative responses into positive ones. Regarding weak disassociation, TGSs actively seek to disguise their connections to “bad apples.” This point is exemplified by the Global Compact’s downplaying of BP’s active participation in the Compact as an effort to protect the TGS’s legitimacy in the aftermath of the Deepwater Horizon accident (UN Global Compact, 2010b; Global Compact Critics, 2010b). We therefore expect weak disassociation

to decrease the likelihood of negative affect among intuiters, and thus to reduce the probability of negative spillovers harming a TGS:

*Proposition 4a: Weak disassociation from “bad” affiliates decreases the likelihood that a TGS will suffer from negative affect and a negative legitimacy spillover.*

Regarding strong disassociation, we expect measures that cut linkages to troubled affiliates to elicit positive affect among intuiters and thereby contribute to TGS legitimacy. For example, the expulsion of UNGC affiliate Lifosa, a Lithuanian company that imports phosphate from Western Sahara but that refused to engage in a dialogue with local communities, received wide praise (Global Compact Critics, 2011b). Given that intuiters act as intuitive prosecutors and embrace the punishment of deviators (Fehr and Gächter, 2002; Tetlock, 2002), measures that strongly disassociate a TGS from a “bad” affiliate will strengthen intuiters’ perceptions that the TGS corresponds to their expected ideal. Besides containing the spillover of negative affect, strong disassociation also produces positive affect and increases the likelihood that a TGS will benefit from positive legitimacy spillovers.

*Proposition 4b: Strong disassociation from “bad” affiliates increases the likelihood that a TGS will benefit from positive affect and a positive legitimacy spillover.*

## DISCUSSION

The role of heuristics and System 1 processes has been largely absent in current analyses of legitimacy and other social judgments (Bitektine, 2011). Yet, as stressed by Kahneman (2011), even though our subjective experience is often closer to System 2 notions of agency and choice, there is strong evidence that System 1 processes serve as the foundation of our mental lives. In this paper, we theorized that affect-based attribute substitution is the default

option for intuiters to bestow cognitive legitimacy on a TGS. We theorized that intuiters form a judgment about unfamiliar TGSs by drawing on their affective experiences and perceptions of more accessible and comprehensible TGS affiliates. Basing a judgment on an affective reaction demands less effort than weighing multiple, possibly contrasting arguments, especially when TGS network structures are rather loose and the willingness of intuiters to invest mental resources is limited. We have shown that the affective reactions towards affiliates constitute an important and largely under-researched source of legitimacy spillovers in TGSs and other network-based forms of organizing. Below, we derive the broader implications of our theorizing, and discuss limitations and possibilities for future research.

### **The Emergence of Transnational Governance**

Our article adds to the understanding of transnational governance schemes, a relatively novel yet increasingly prevalent organizational form. Notwithstanding the pervasiveness of TGSs (Vogel, 2008; Waddock, 2008), past research is largely silent on the conditions underlying the legitimization of such entities (Quack, 2010) and there has been few attempts to explain how inter-organizational networks such as TGSs establish legitimacy (Human and Provan, 2000). In this paper we substantiated the argument that the cognitive association between a TGS and its already legitimated affiliates determines the legitimacy of the TGS (Djelic and Quack, 2008; Etzion and Ferraro, 2010). More specifically, we theorized that members of the general public operate as intuiters who contrast a TGS's more accessible organizational affiliates, such as participating business firms, with ideal-based conceptions of a "model" affiliate to judge the legitimacy of the TGS as a whole. This judgment process activates positive or negative reactions in intuiters and leads to a positive or negative bottom-up vertical legitimacy spillover onto the TGS. By elaborating on the heuristic foundations of this process, our paper shows that intuiters are a major source of TGS legitimacy (Cashore, 2002) and sheds light on the question of how intuiters bestow legitimacy on TGSs.



Traditional institutional arguments of how organizations establish legitimacy often assume homogenous institutional contexts. Thus, they may have limited explanatory power when elucidating the legitimation process of TGSs and other complex forms of global organizing (Ahrne and Brunsson, 2008; Kostova et al., 2008). Our micro-rationale of legitimacy ascription complements the current set of theoretical constructs available to institutional theorists, such as organizational field, isomorphism, and decoupling (Kostova et al., 2008). Because transnational governance, which involves regulating organizations across borders, sectors, and hierarchical levels, is a relatively new empirical phenomenon, it is plausible that new concepts may be required in order to fully grasp its scope and character (Djelic and Quack, 2008). In our view, the notion of the intuiter, the heuristics framework of affect-based attribute substitution, and the concept of vertical legitimacy spillovers can contribute to the development of such a theoretical apparatus.

### **The Role of Affect in the Transfer of Legitimacy**

Our research expands previous work on legitimacy spillovers (Desai, 2011; Jonsson et al., 2009; Kuilman and Li, 2009) and on the transfer of other types of social approval, such as reputation (Barnett and King, 2008; Zavyalova et al., 2012). To date, most conceptual and empirical studies have focused on legitimacy spillovers in industrial classes (Desai, 2011; Jonsson et al., 2009; Yu et al., 2008) and organizational populations (Kuilman and Li, 2009). These works provide evidence that legitimacy spillovers are driven by the similarity heuristic (Jonsson et al., 2009; Yu et al., 2008). In contrast, we theorized that similarity-based classification offers a limited explanation for legitimacy transfers within interorganizational networks such as TGSs. We argued that network spillovers are influenced by *affect-based* attribute substitution through which intuiters substitute mentally effortful judgments about the legitimacy of a TGS with mentally less difficult affect-based judgments about its most salient affiliates. This tendency explains why TGS spillovers follow a bottom-up direction and, as we

showed earlier, accounts for the pronounced asymmetry in the intensity of negative versus positive spillover effects.

Our legitimacy-as-feeling perspective also offers insights into the micro-foundations of “linkage legitimacy” (Bitektine, 2011, p. 156), i.e., the observation that an entity’s ties to legitimate others enhance that entity’s own legitimacy (Tost, 2011). The positive external endorsement of an entity by its peers and its affiliations with high-status actors (Baum and Oliver, 1991; Stuart et al. 1999), as well as analogies between that entity and existing institutions (Cornelissen and Clarke, 2010; Etzion and Ferraro, 2010), are likely to serve as cues for positive affect. This, in turn, informs the intuitive judgment of a legitimacy subject. Questions regarding the cross-level transfer of legitimacy such as, “How do individuals generalize from their approval of a board member or a management team member to the legitimacy of an associated venture, organization, or industry?” (Certo, 2003; Deephouse and Suchman, 2008) need to be re-examined in light of the potential effects of affect-based mechanisms on the categorization process. In view of that, we believe that both conceptual and empirical research will benefit from integrating affect and affect-related variables into the analysis of legitimacy spillovers and transfers of other, affect-based social judgments (Bitektine, 2011; Deephouse and Suchman, 2008; Devers et al., 2009; Pfarrer et al., 2010; Rindova et al., 2006; Zavyalova et al., 2012). For instance, affect-based attribute substitution may constitute the micro-foundation for the transfer of other “target attributes” (Kahneman and Frederick, 2002) such as reputation, broadly understood as the general favorable perception of an organization (Fombrun, 1996; Zavyalova et al., 2012), or celebrity, conceptualized as the combination of high levels of public attention to and positive emotional resonance of an organization’s actions and characteristics (Pfarrer et al., 2010; Rindova et al., 2006).

### **Rethinking Cognitive Legitimacy**

Our arguments on affect-based attribute substitution lend credence to Bitektine’s assertion (2011) that under conditions of uncertainty, intuiters may find it difficult to make a judgment

about an organization by classifying it into a pre-existing category. This may lead intuiters to search for available “proxies” (Bitektine, 2011, p. 165). Given that the availability of a stimulus is influenced not only by cognitive recall but also by the accessibility of affect (Slovic et al., 2002), affect and affect-based constructs ought to be integrated into analyses of legitimacy and cognitive typification. Our theory suggests that the grouping of legitimacy subjects into categories has a basis in the “good-is-familiar” phenomenon; that is, intuiters will attribute familiarity towards an unknown stimulus to which they feel positively disposed (Monin, 2003). This logic aligns with findings that positive emotions towards product innovations enhance the innovations’ understandability (Rosa et al., 1999) and that socialization “takes place under circumstances that are highly charged emotionally,” giving us “good reason to believe that without such emotional attachment [...] the learning process would be difficult if not impossible” (Berger and Luckmann, 1967, p. 131).

Another important insight to emerge from our work is that similarity-based theories of categorization may not offer a comprehensive account of legitimacy and the legitimation process. Indeed, there is increasing evidence that similarity is only *one* of many criteria on which organizational categories can be based (Durand and Paoletta, 2013). Porac and Thomas (1990, p. 230) acknowledge that the notion of taxonomies as similarity-based hierarchical mental representations of organizations may be inadequate for describing categorical structures. They refer to evidence indicating that taxonomies “are results of on-the-spot inferences by respondents, rather than deep-seated conceptual structures.” The concept of fast, automatic, and associative reasoning that involves affect-based attribute substitution supports this conjecture. Therefore, viewing cognitive legitimacy merely as a measure of similarity between a given entity and other legitimacy subjects (Bitektine, 2011; Meyer and Rowan, 1977; Zuckerman, 1999) may not capture the richness of conceptual structures and semantic relations in human cognition (Durand and Paoletta, 2013; see also Lakoff 1987, p. 82).

Our arguments also have important implications for the further development of organizational research on categories and categorization (e.g. Durand and Paoletta, 2013; Kennedy and Fiss, 2013; Vergne and Wry, 2014). Previous research has suggested that evaluation predisposes the establishment of a legitimate category, meaning that evaluation *follows* from categorization (Bitektine, 2011; Navis and Glynn, 2010; Zuckerman, 1999). For instance, Navis and Glynn (2010) found that beholders initially assessed the legitimacy of the Satellite radio category as a whole, and only later did they shift their attention to the legitimacy of individual members of the category. In contrast, we suggest that intuiters first assess the legitimacy of TGS members and then bestow legitimacy to the TGS as a whole. Thus, in the context of TGSs and other network-based organizations, evaluation may *precede* categorization. As we have extensively argued, a “test of congruence” (Durand and Paoletta, 2013, p. 21) between a TGS affiliate and an abstract ideal may engender an intuitive judgment of whether that affiliate is good or bad. In turn, intuiters’ resulting affective responses, by means of attribute substitution, promote the emergence, legitimation, and ideational stabilization of the mental representation of the TGS (Kennedy et al., 2010). It follows that for networks, legitimacy and categorical structures are endogenous to evaluation: to form a legitimacy judgment, intuiters use established conceptual structures (the ideal), but at the same time create and enact new ones (the valenced category of the actual TGS).

Because cognitive legitimacy does not necessarily rely on a successful assignment into a fixed category, institutional theorists need to revisit the idea of cognitive legitimacy as stable and enduring (Scott, 2008; Suchman, 1995). On the same grounds, it would also be worth revisiting the conventional notion that legitimacy resembles a dichotomous construct, in the sense that a subject can only be either cognitively legitimate or “non-legitimate” (Deephouse and Suchman, 2008). The idea that the marginal effects of attribute substitution can be increased or decreased until binary threshold levels are reached (Propositions 3a and 3b) may

help reconcile a continuous conception of legitimacy with a dichotomous one (Rutherford and Buller, 2007; Zimmerman and Zeitz, 2002).

Finally, our analysis draws attention to an unresolved puzzle, namely the nature of “illegitimacy.” In line with Hudson (2008), Hudson and Okhuysen (2009), and Devers et al. (2009) we posit that illegitimacy is analytically distinct from “a lack of legitimacy” or “being non-legitimate.” Combining the model of affect-based attribute substitution with the analysis of TGS legitimation reveals that perceptions of legitimacy may be driven by positive affect, whereas perceptions of illegitimacy do not arise from the mere *absence* of positive affect but from the *presence* of negative affect. Thus, illegitimacy may be better captured by the notion of “stigma,” “negative legitimacy” or “social disapproval” (Elsbach and Sutton, 1992; Hudson, 2008). Considering the ambiguities about the essence of legitimacy and illegitimacy in the existing literature, we urge organizational theorists to explore whether legitimacy and illegitimacy can be represented by the same scale (Vergne, 2012) and specify the cognitive and affective foundation of these two constructs more precisely (Devers et al., 2009).

### **Limitations and Future Research**

A limitation of our research is that the propositions we have developed do not explicitly consider the regulation of intuitive judgment (System 1) through deliberative (System 2) processes. That is, we do not elaborate on the conditions under which intuiters may act more like evaluators. Although intuitive processes constitute the baseline mode for mental operations (Chaiken and Trope, 1999; Kahneman, 2011), context-specific factors such as discussing the legitimacy subject (Druckman and Nelson, 2003), having sufficient time to analyze it (Svenson and Maule, 1993), and accountability (Lerner and Tetlock, 1999) may facilitate a more active and conscious mode of judgment. For example, intuiters confronted with incongruent viewpoints may lead them to act more like evaluators and actively deliberate the association between a TGS and its affiliates (Tost, 2011). Further, intuiters may reconsider the ideal by

which they contrast TGS affiliates as well as idealized conceptions of how TGS affiliates should behave to achieve a certain goal (Durand and Paoletta, 2013).

We also have treated intuiters as a homogenous group in that they share common perceptions of an organization and its role in society (Lamin & Zaheer, 2012). However, future research could distinguish between an “external affect heuristic,” when the source of the stimulus is relatively ephemeral and informed by an intuiter’s environment, and an “internal affect heuristic,” when the source of the stimulus is relatively stable and informed by the intuiter’s attitudinal disposition (Kulik et al., 2008; Pratkanis, 1989). For example, when an intuiter is positively disposed towards a TGS affiliate (the attitudinal disposition serving as the foundation of the internal affect heuristic), does a weakly negative stimulus (e.g. unfavorable media coverage as the foundation of an external affect heuristic) weaken that intuiter’s positive affective response, or does it consolidate an earlier affective response because the intuiter disregards dissonant evidence (Forgas, 2003; Ito and Cacioppo, 2005)? Also, at what point do differences become emotionally unsustainable, trigger a “mental alarm” (Tost, 2011), and engender the active revision of the internal affect heuristic (Redlawsk et al., 2010)?

Future research could also explore the evidence that vertical spillovers in transnational governance are not restricted to affiliations with organizations but can also extend to the sub-organizational level. Perhaps legitimacy judgments about a TGS are facilitated by affective reactions towards individuals associated with that TGS. For instance, we expect Kofi Annan’s strong endorsement of the UNGC in 1999 (when the Global Compact was launched) to have produced a positive bottom-up legitimacy spillover onto the then-young entity, given Annan’s popularity as a well-respected and trusted public figure. This mirrors Suchman’s point that the *personal legitimacy* of organizational leaders affects the legitimacy of organizations with which they are associated (Suchman, 1995, pp. 579–582). Using these ideas as starting points, future studies could examine whether the rationale of affect-based attribute substitution can be

considered to apply to other types of vertical legitimacy associations, involving dyads spanning the individual, organizational, and system levels (Deephouse and Suchman, 2008).

While this paper has focused on legitimacy transfers from TGS affiliates to the TGS as a whole, it would be worth studying other types of vertical relationships in order to establish whether the legitimacy of organizational subjects (e.g., private business firms) and sub-organizational subjects (e.g., boards of directors or CEOs) is affected by the overall legitimacy of a TGS and whether the associated effects and mechanisms are comparable to those in the case of bottom-up relationships. For example, some business firms have been criticized for participating in the UNGC in order to take advantage of the United Nations' legitimacy and to "bluewash" questionable business operations, a reference to the color of the UN's flag (Fall and Zahran, 2010). Furthermore, it is conceivable that an affective response towards the UN affects legitimacy judgments about the UNGC, leading to a "top-down" vertical spillover. Likewise, the UNGC's legitimacy could be affected horizontally by evaluations of affiliates of the UNGC inter-agency team (comprising six UN agencies, such as UNICEF) or by assessments of one of the UN's central organs, such as the Security Council. Such horizontal and top-down vertical legitimacy relationships are certainly worth exploring in future studies.

Finally, future research could also empirically test the propositions we put forward in this paper. Psychological research indicates that the theoretical mechanisms we implemented are strong and pervasive (Cacioppo and Gardner, 1999; Fiske and Taylor, 2008; Rozin and Royzman, 2001). Perhaps sophisticated experimental designs that embed treatment manipulations into national surveys (Gaines et al., 2007), as well as by quasi-experimental group designs that take into account the legitimating effects of dialogue and communicative engagement (Fishkin and Luskin, 2005) will provide external validity support for our arguments.

## TABLES AND FIGURES

**Table 1: Evaluators and Intuiters of TGSs**

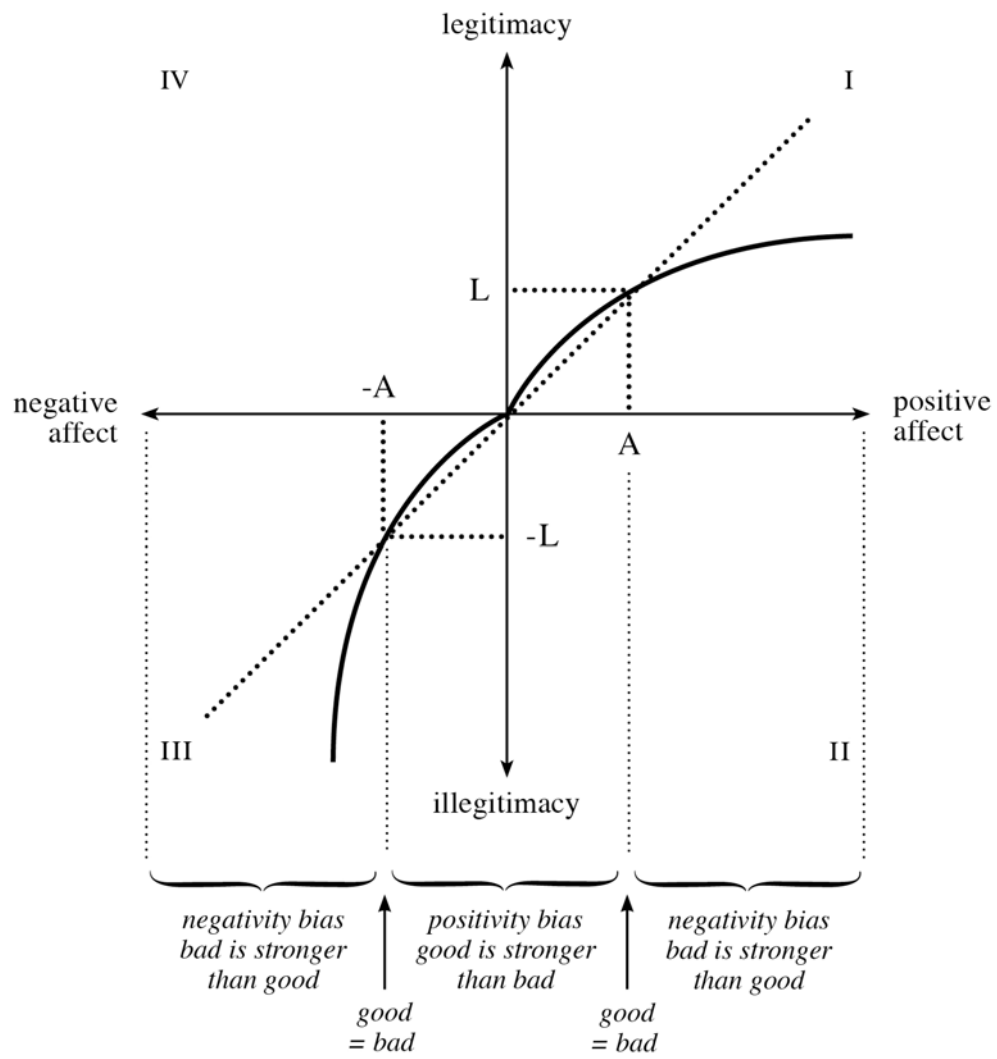
	<b>Evaluator</b>	<b>Intuiter</b>
<b>Defining properties</b>	Personal interest in transnational issues Knowledge about TGSs Active evaluation of TGS Behavioral disposition to engage with TGS	Little direct interest in transnational issues Little knowledge about TGSs Passive evaluation of TGS Little immediate disposition to engage with TGS
<b>Mental operations</b>	System 2: slow, rule-governed, and deliberate	System 1: fast, associative, and spontaneous
<b>Baseline for</b>	Experts: policy-makers, NGO activists, TGS officials, scholars	Members of the general public: consumers, employees, citizens
<b>Role in TGS legitimization</b>	Produce validity cues by publicizing associations between TGS and other entities	Use validity cues to generate a proxy judgment
<b>Legitimacy status of TGSs</b>	Determined (favorably or unfavorably)	Initially undetermined; over time indirectly determined via associations

**Table 2: Legitimacy Spillovers in Classes versus Networks**

	<b>Classes</b>	<b>Networks</b>
<b>Constituents</b>	Similar members	Dissimilar affiliates
<b>Inclusion relation</b>	Is-a	Part-of
<b>Example</b>	Industries	TGSs
<b>Prototype</b>	Central tendency of members	Abstract ideal
<b>Hierarchical structure</b>	Tree-structure: rigid and stable taxonomies	Web-structure: fluid and dynamic associations
<b>Foundation of spillover</b>	Similarity-based attribute substitution	Affect-based attribute substitution



**Figure 1: Marginal Effects of Affect–Legitimacy Substitution**



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