Journal of Business Ethics (2010) 93:39–50
DOI 10.1007/s10551-009-0180-3

Organizations Behaving Badly: When Are Discreditable Actions Likely to Damage Organizational Reputation?

A. Rebecca Reuber
Eileen Fischer

ABSTRACT. Everyday there are revelations of organizations behaving in discreditable ways. Sometimes these actions result in damage to an organization's reputation, but often they do not. In this article, we examine the question of why external stakeholders may overlook disclosed discreditable actions, even those entailing ethical breaches. Drawing on stigmatization theory, we develop a model to explain the likelihood of reputational loss following revelations of discreditable actions. The model integrates four properties of actions (perceived control, perceived certainty, perceived threat, and perceived deviance), stakeholder motivation, and media coverage. Implications for theory and for practitioners concerned with reputation management are discussed.

KEY WORDS: discreditable action, misconduct, organization, reputation, stigma

Observers of organizations may assume that firms will suffer a loss of reputation if they are caught engaging in actions that violate social, moral, or legal codes, such as flaunting accounting regulations, supporting fraudulent practices, damaging the environment, or deploying discriminatory hiring practices. This assumption that wrong-doers whose actions are publicized will suffer at least in terms of their public image is supported by cognitive processing research suggesting that people weigh bad news far more heavily than good news (e.g., Folkes and Kamins, 1999; Mizerski, 1982). People perceive negative actions to be more diagnostic of negative traits than positive actions of positive traits because even ''bad'' organizations will act in some ''good'' ways due to conformity pressures and efforts to ingratiate the organization with stakeholders (Folkes and Kamins, 1999; Skowronski and Carlston, 1987).

However, evidence suggests that organizations frequently survive public revelations of wrong-doing without being seriously discredited. For example, stock market reaction is at most minimal and short-lived when organizations report high toxic emissions (Bansal and Clelland, 2004) or face public accusations for illegalities such as bribery, price-fixing, and defrauding customers (Davidson and Worrell, 1988; Davidson et al., 1994). As other examples, video card manufacturer ATI, retailing giant Wal-mart and domain name registrar VeriSign have been publicly accused, respectively, of surreptitiously ''fudging'' benchmark tests, hiring illegal immigrants, and using deceptive marketing practices (Akst, 2003; Markoff, 2002; Patrizio, 2001). However, even in the face of negative publicity, compelling evidence, and ongoing criticism from certain stakeholder groups, these organizations thrived during the accusations, and it would be difficult to find indicators that they were considered less reputable than their peers. In many instances, then, organizations seem to survive allegations of misdeeds with little public devaluation. In this article, we examine why organizations may fail to suffer meaningful reputational damage when they engage in actions that range from inept to unethical. Specifically, we develop a model of when discreditable actions are likely to impact a firm's reputation. Drawing on social cognition theories, we extend the concept of stigma from the individual to the organizational level of analysis to examine the circumstances in which an organization is – and is not – likely to suffer adverse reputational effects from public revelations of wrong-doing.

Our study acknowledges, but goes beyond, prior research that argues organizations' buffering from reputational loss can be partially explained by their use of symbolic or substantive impression management tactics to repair any damage and restore public faith. Examples of repair tactics that have been studied include: providing accounts that normalize the practices to stakeholder and the media (such as denials, excuses, justifications, explanations etc.); acknowledging the practices and indicating the steps taken to reverse the ill effects or prevent re-occurrence; decoupling the practices from the core activities of the organization; deflecting responsibility onto individuals or groups within the organization; and highlighting the organization's ''good'' aspects (Ashforth and Gibbs, 1990; Bansal and Clelland, 2004; Elsbach, 1994; Elsbach and Sutton, 1992; Pozner, 2008; Suchman, 1995; Sutton and Callahan, 1987; Wiesenfeld et al., 2008).

Repair tactics, though, provide only a partial explanation for a lack of reputational damage in the face of discreditable organizational actions, for several reasons. First, countervailing signals that contradict the message conveyed by repair tactics are likely to come from parties motivated to bring the organization into disrepute, either to improve their own competitive position or to protect against guilt by association. For example, competing domain name registrars filed and publicized class action suits against VeriSign (Markoff, 2002) and editors of gaming magazines and web sites publicly decried ATI's actions and explanations (Patrizio, 2001). Second, many of the reported tactics rely on the intermediary function of the media. News media do not always cooperate in reporting on repair tactics, and news coverage does not necessarily change public attitudes. For example, despite critical news coverage during the Monica Lewinsky scandal, U.S. President Bill Clinton's approval ratings went up (Shah et al., 2002). Third, people may be skeptical of the repair tactics (Ashforth and Gibbs, 1990; Suchman, 1995),' given the generally low level of media credibility with the public (Arpan and Raney, 2003), of reports of repair tactics.

The stigma literature suggests a complementary explanation for why organizations frequently escape stigmatization after revelations of discreditable actions, including those that are unambiguously unethical. Jones et al. (1984, p. 89) note that ''the evidence suggests that a vast majority of instances of rule violations that occur are ignored, normalized, disregarded, or are in other ways not attended to.'' This suggests not that repair tactics are ineffective, but that they are not always needed. Research focusing on repair tactics assumes that there is damage to *be* repaired. In this article, we relax that assumption, drawing on stigmatization theory to develop a model that explains why information about discreditable actions does not always ''stick'' to stakeholders' belief structures and lead to more negative attitudes toward organizations that engage in them. The model integrates three types of factors – related to the action, the stakeholders, and the media coverage – to show when discreditable actions are and are not likely to negatively impact an organization's reputation. We use two examples to illustrate aspects of the model: Arthur Andersen, a firm which suffered reputational damage from revelations of discreditable actions, and PayPal, a firm which did not.

We make several theoretical contributions to the field of business ethics and organizational reputation. First, by explaining outcomes at the organization level, we extend prior research that has examined the impact of discreditable actions on stigmatized individuals within the organization (e.g., Pozner, 2008; Wiesenfeld et al., 2008). Second, our focus on reputational consequences highlights the perceptions of organizational outsiders with respect to revelations of wrong-doing and therefore complements research on the framing of organizational misconduct *within* organizations (e.g., MacLean, 2008). Third, as a complement to previous research explaining the consequences of stigmatized organizational behaviors (e.g., Sutton and Callahan, 1987), we provide a model for understanding when organizations are likely to suffer reputational loss. This latter contribution has practical implications. Knowing when organizations may escape reputational consequences of discreditable actions can help watchdog agencies and others concerned with encouraging ethical business conduct to counter tendencies for stakeholders to turn a blind eye to actions for which organizational should be held accountable.

In using the term ''discreditable actions,'' we differ from previous study in this area which has used the term ''misconduct'' (e.g., MacLean, 2008).

Misconduct refers to "acts of omission or commission by individuals or groups of individuals acting in their organizational roles who violate internal rules, laws, or administrative regulations on behalf of organization goals" (Vaughan, 1999, p. 288). We use the term discreditable action instead because we are focused on actions that could reflect negatively on the company in the eyes of outsider stakeholders, but that might or might not violate internal codes. As a result of our focus on external stakeholder perceptions, we consider only discreditable actions that have been publicly revealed, because logically there can be no reputational consequences for organizations if such actions remain concealed (cf. Sutton and Callahan, 1987). Further, we consider only reputational loss as a consequence of actions, and not reputational denigration arising from membership in a devalued industry, such as mens' bathhouses (Hudson, 2008; Hudson and Okhuysen, 2009).

In the remainder of the article, we first outline core concepts of stigmatization theory and the two examples, that of Arthur Andersen and PayPal, which we use to illustrate the relationships in the model. Next, in the core of the article, we present our model. We examine properties of actions, stakeholder motivation, and media coverage in turn, formulating propositions that explain the likelihood of reputational loss and describing how these factors interacted to play a role in the outcomes following revelations of discreditable actions on the part of Arthur Andersen and PayPal. In the last section, we discuss the implications of the model for research and practice.

Theoretical approach and illustrative examples

Stigmatization theory

Based on Fombrun (1996), we define an organization's reputation as its overall appeal to its external stakeholders. It is the *externality* of the assessment that differentiates reputation from organizational identity, which has been defined as what insiders think about their organization (Gioa and Thomas, 1996), and from organizational image, which has been defined as what insiders believe that outsiders think about it (Dutton et al., 1994). A reputation is a social cognition. Although it is a firm-level resource, it consists of the cognitive evaluations of the firm held by external stakeholders. We regard individuals' reputational beliefs about an organization as their attitude toward it. In order to understand the impact of discreditable actions on these attitudes, we focus on the individual-level cognitive processes leading to attitudes that collectively constitute an organizational reputation. Although attitudes are an individual-level construct, this approach has been used to understand collective beliefs about new brands and products (e.g., Keller, 1993) and individuals' power identities (e.g., Fiol et al., 2001).

Stigmatization theory is valuable for considering the cognitive processes underlying reputational loss. Like reputation, stigma is created subjectively but possessed objectively. Building on study by Goffman (1963), and Jones et al. (1984), a stigmatized entity has been defined as being "devalued, spoiled or flawed in the eyes of others" (Crocker et al., 1998, p. 504). Thus, stigma is also a social cognition that is created subjectively in the minds of individual stakeholders, but held objectively and collectively.

Entities are stigmatized through a categorization process; in particular, when they are viewed as a member of a socially discredited category, whether because of actions taken or because of inherent properties. Since an entity is associated with multiple categories, it is stigmatized when a negative category dominates audience members' perceptions of it (Jones et al., 1984). This categorization facilitates negative stereotyping because when we slot an entity into a category, we infer additional information about the entity from the attributes we normally consider associated with that category (Jones et al., 1984, p. 156). For example, when we find out that a company is from a particular country, we may infer that its products have certain characteristics that we associate with that country of origin (e.g., Maheswaran, 1994). When the category is stigmatized, these generalized inferences are negative. Stereotyping, therefore, projects undesirable qualities onto stigmatized entities, accurately or not (Biernat and Dovidio, 2000), and so can negatively impact attitudes about an organization, thereby damaging its reputation.

In the following section, we use stigmatization theory to develop an integrated model of when discreditable actions are, and are not, likely to impact a firm's reputation. Before doing so, we present the two examples that will be used to illustrate the factors in the model.

Arthur Andersen example

The first example is that of Arthur Andersen, a major international accounting and consulting firm, whose reputation was irrevocably damaged by its actions. As of 2001, Arthur Andersen had an 85-year history of operations, 85,000 employees, 350 freestanding offices, and an enviable stature in its industry (Squires et al., 2003). In December of 2001, ten days after Enron declared bankruptcy, Andersen's CEO testified to a congressional committee that Enron may have committed illegal acts and withheld information from its auditor. A month later, Andersen admitted to shredding documents related to Enron and fired the Enron engagement partner. Andersen officials testifying before the U.S. Congress tried to suggest the partner acted alone. This claim was deemed untenable after the ex-partner cut a deal with prosecutors and agreed to testify against the firm. Andersen argued that most of its people were innocent and that it was wrong to punish the firm and affect the well-being of its many employees and other stakeholders (Ackman, 2002a). However, in June 2002, a federal jury convicted the accounting firm of one felony count of obstructing the Securities and Exchange Commission's investigation into Enron and held the entire Andersen organization accountable (Ackman, 2002a, b). After the verdict, the company was forbidden to audit public companies. But, in effect, clients put this prohibition into action well before the court decision. Company after company dismissed Arthur Andersen as their auditor (Dignan, 2002; Patsuris, 2002). By the end of 2002, the firm virtually ceased operations.

PayPal example

PayPal was launched in 1998 to provide online money transfers. By 2000, PayPal had 4.6 million customers, and more than half of them used the service to make transactions on the eBay auction web site. However, PayPal faced serious challenges to its reputation in some quarters. Its service was widely and publicly criticized, and it struggled to overcome an unsatisfactory rating with the Better Business Bureau. On-line swindlers were successfully targeting and defrauding numerous PayPal users. The company's anti-fraud detection software fueled more complaints because it froze customers' accounts. Further, in February 2002, disgruntled users filed a class action suit over the enforcement of contracts (Esch, 2001). However, despite these reputational threats, in that same month, PayPal made a very popular initial public offering, with shares leaping to $20 from an offering price of $13 on the first day (Overfelt, 2003). By mid-2002, eBay, a much larger and more established firm recognized that Billpoint, a venture it had co-developed with Wells Fargo, could not overcome PayPal's lead. In June 2002, eBay announced it would buy PayPal and shut down Billpoint (Kane, 2002).

A Model of reputational loss

In this section of the article, we present a model which integrates three types of factors – the action, the stakeholder, and the media coverage – to show when discreditable actions are and are not likely to negatively impact an organization's reputation. Drawing on stigmatization theory, we state the expected impact of each factor in the form of a proposition, and use the examples of Arthur Andersen and PayPal to illustrate the expected relationships. The model is shown in the diagram in Figure 1.

Action-related factors

Perceived control

There is general agreement in the literature that greater stigma is attached to a condition that is perceived as controllable rather than uncontrollable (Crocker et al., 1998; Jones et al., 1984, p. 62). People can justify the greater stigma because the stigmatized entity could have avoided the condition but chose not to (Crandall, 2000). Further, Brickman et al. (1982) distinguish between having control over the onset versus the continuation of a

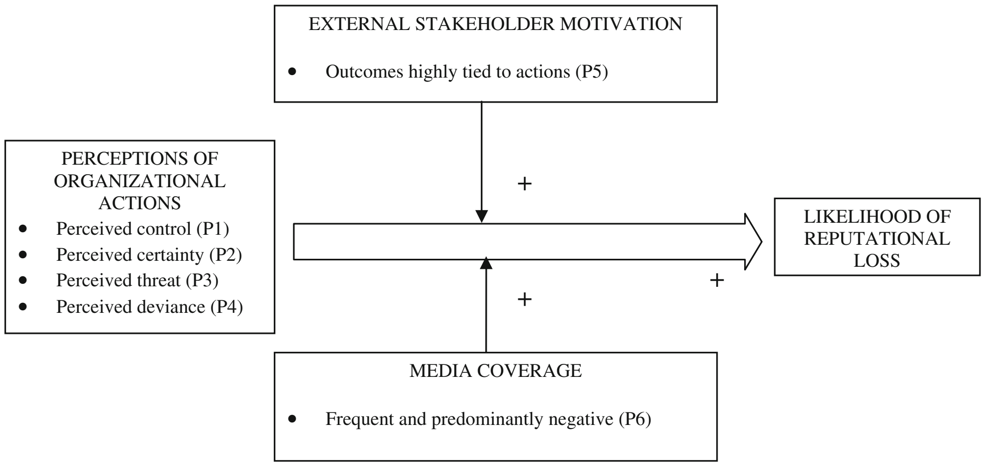

Figure 1. Factors influencing reputational loss through discreditable actions.

stigmatizing condition, since an entity may be seen as having little control over the occurrence of a condition, but more control over its reversal. This is consistent with institutional theorists' conclusion that managing and being seen to manage a discreditable situation effectively is a key legitimacy repair tactic (Ashforth and Gibbs, 1990; Suchman, 1995).

Thus, we expect that when the onset or continuation of a discreditable action is perceived as more controllable, the organization's reputation will be threatened to a greater extent than when the onset or continuation is perceived as less controllable. For example, selling unsafe products with full knowledge of their danger will have greater potential to impact an organization's reputation than selling unsafe products inadvertently, because the organization will be perceived as having had more control, and therefore more disregard, over harming customers. Moreover, negative impact on an organization's reputation will be greater if it is not seen to be taking steps to manage the consequences and minimize the chance of reoccurrence, whether the initial product release is perceived to be intentional or not.

We can see the salience of perceived control for external stakeholders when looking at Arthur Andersen and PayPal. Andersen's paper shredding was a discrete action that was highly controllable: the firms could have refrained from destroying evidence harmful to Enron, but intentionally did not. In contrast, the fraud against PayPal customers came from sources outside of the company. PayPal was viewed as taking steps to minimize the damage to stakeholders, and, indeed, was seen as a pioneer in dealing with such challenges (Esch, 2001).

This discussion in this section leads to the following proposition:

Proposition 1: An organization's discreditable actions will be associated with reputational loss to the extent that external stakeholders judge their onset and/or their continuation to be controllable by the organization.

Perceived certainty

For an entity to be stigmatized, the stigmatizing condition must be revealed (Crocker et al., 1998). Although we are not concerned with fully concealed actions in this article, organizational actions can be revealed to varying degrees. In particular, it can be uncertain whether an action even occurred, particularly if organizational officials publicly refute allegations. When there is uncertainty with respect to whether an action occurred, the potentially stigmatized entity is motivated to persuade others that the discrediting associations are untrue (Jones et al., 1984, p. 33), which can increase raise doubt about whether stigmatization is appropriate. This implies that information about potentially discreditable organizational actions is likely to result in stigma to the extent that there is greater certainty about the validity of the information.

The likelihood that an organization will be stigmatized on the basis of discreditable actions therefore depends on the extent to which these actions are perceived to be certain to have occurred. Actions that are perceived as more certain to have occurred are likely to damage the reputation of the organization to a greater extent than those seen as less certain. For example, in the case of Arthur Andersen, any initial doubts about the validity of the allegations against the firm ended when the firm was charged and then convicted of wrong-doing. In the case of PayPal, however, there was much less certainty with respect to the extent to which discreditable actions had even taken place. Much of the anti-PayPal rhetoric was generated by disgruntled users, and the inflamed tone of the criticisms on websites such as paypalsucks.com could well have undermined the credibility of the complaints. Indeed, the fact that eBay permitted the PayPal logo on its website cast doubt on whether PayPal had acted wrongly, given the assumption that high quality firms are likely to endorse only other high quality firms (Stuart et al., 1999).

The discussion in this section leads to the following proposition:

Proposition 2: An organization's discreditable actions will be associated with reputational loss to the extent that external stakeholders are certain that they occurred.

Perceived threat

Greater stigma is attached to a condition when it is perceived as more threatening to stakeholders (cf. Neuberg et al., 2000). An action can be threatening because it challenges group norms or standards (Crocker et al., 1998), because it leads to costs or economic hardship for other parties (Jones et al., 1984, p. 99), or because people are afraid of being stigmatized by association (Jones et al., 1984, p. 69). For example, Sutton and Callahan (1987) found that bankruptcy is associated with all the three threats: fear that the organization will deliver low quality products, fear of losing money, and fear of being tainted by association. In general, we expect that discreditable actions which are perceived as more threatening will impact a firm's reputation to a greater extent than those that are perceived as less threatening. The threat associated with Arthur Andersen's practices was rendered vivid by Enron's fate. Having an auditor who first ignored questionable accounting practices and then destroyed evidence of its past actions clearly did little to help Enron. Moreover, since companies hire auditors to vouchsafe that their accounting practices are valid, it would clearly jeopardize a potential customer if the auditor's claims were to invite scrutiny by outsiders (Dignan, 2002). In contrast, the threat to individual buyers using PayPal was minimal, since it was largely limited to single transactions.

The discussion in this section leads to the following proposition:

Proposition 3: An organization's discreditable actions will be associated with reputational loss to the extent that external stakeholders judge them as threatening.

Perceived deviance

Greater stigma is attached to actions perceived as deviant in undesirable ways from established practices than to those perceived as isomorphic with established practices (Jones et al., 1984, p. 92). Contrary to the other properties of discreditable actions discussed here, perceived deviation requires comparing the organization's actions with those of other, similar organizations. Actions that are isomorphic with industry norms, even if they are discreditable, are less likely to affect the reputation of any particular organization. For example, when graphics chip manufacturers ATI and Nvidia were publicly accused of using optimizers to cheat on benchmark tests, neither firm suffered any meaningful reputational loss. Instead, the testing organization changed how it labeled the action, from ''cheating'' to ''breaking the rules,'' and the industry experts downplayed the importance of benchmark results in consumer decisions (Krazit, 2003). Indeed, when studying the market impact of selling substandard products, Davidson and Worrell eliminated automobile and tire recalls because they are so frequent that their effects are expected to be negligible (1992).

We therefore expect that discreditable actions perceived as more deviant from industry norms will threaten an organization's reputation to a greater extent than those that are perceived as less deviant. In the case of Arthur Andersen, even though some practices may have been isomorphic with current industry practices, the deviance of Andersen's actions was highlighted by its conviction. Andersen had been subject to many suits questioning various practices in the past, but had maintained its stature as a reputable auditor without difficulty (Squires et al., 2003). In this situation, though, the jury's decision to convict Andersen signified that the firm had broken a law, which is one of the clearest available signals that an action is deviant. In contrast, deficiencies in PayPal's fraud-handling practices were not perceived as deviant because at the time, all the online funds transfer companies were targets of fraud. Moreover, because this was a new industry, widely agreed upon norms of behavior did not yet exist, and so deviance from norms was difficult to judge.

The discussion in this section leads to the following proposition:

Proposition 4: An organization's discreditable actions will be associated with reputational loss to the extent that external stakeholders judge them to be deviant from industry norms.

Stakeholder motivation

The propositions put forth thus far are useful for predicting what actions are most likely to be associated with reputational loss, but to understand when this potential is likely to be realized, we need to consider how external stakeholders process such revelations. Despite widespread assumptions that external stakeholders will react swiftly and negatively to "bad news" about organizations (e.g., Kroloff, 1988), there is evidence to suggest that some people are not motivated to cognitively process such information (e.g., Maheswaran and Chaiken, 1991).

External stakeholders vary in the extent to which their outcomes depend on particular organizational actions. When outcome-involvement with a discreditable action is high – outcomes matter more to their well-being – stakeholders are motivated to be more accurate in their information processing (cf. Chen et al., 1996; Johnson and Eagley, 1989; Petty and Cacioppo, 1986) and pay attention to any available information during the judgment process (Celsi and Olson, 1988). This attention will positively moderate the relationship between perceptions of the action and any reputational damage. For example, in the case of Arthur Andersen, the external stakeholders with the highest motivation to process information about its discreditable actions were current clients, and they abandoned the firm quickly after the revelations. In the case of PayPal, however, there were two very different groups of stakeholders, with different motivations: buyers and sellers. High-volume sellers who were already disgruntled about PayPal's changing pricing practices were more likely than buyers to examine carefully the information about developments such as lawsuits against PayPal (e.g., Wolverton, 2002). Buyers, who tended to be involved with the company more sporadically, were less likely to pay attention to such signals and change their reputational judgments of the firm, because the outcomes of these actions just didn't matter as much for them.

Thus, the discussion in this section leads to the following proposition:

Proposition 5: The relationship between perceived properties of discreditable actions and reputational loss is positively moderated by the extent to which external stakeholders have outcomes tied to those actions.

Media coverage

Even people with low motivation to process negative signals about an organization can revise their reputational assessment of it after revelations of discreditable actions, depending on how these actions are publicized. It is clear that not all the revelations of discreditable actions by organizations receive equal attention from the media. Journalists select stories that they consider most likely to attract readers because they are novel, original or unexpected (McQuail, 1985). In doing so, they help to shape perceptions of what is new and newsworthy (McQuail, 1984; Schudson, 1978), and to influence external stakeholders' judgments of what behaviors are normal or abnormal (Shrum, 2002). Two interrelated aspects of media coverage are necessary for stakeholders' attitudes to be affected by negative revelations about an organization. The coverage must be frequent and the action must be consistently reported in a negative manner.

The negativity of media coverage has significant implications for how external stakeholders process new stories (e.g., Min, 2002; Riffe et al., 1998; Shoemaker and Reese, 1990). Negative media coverage of discreditable organizational actions persuades people that other members of the public disapprove of the organization because of its behavior (Rao et al., 2001). To the extent that stakeholders are actively seeking information, the perspective of the media may reduce their uncertainty about their own judgements and convince them that those with a fuller knowledge of the facts are correct (Bikhchandani et al., 1992; Rao et al., 2001).

However, in order to threaten an organization's reputation, coverage of an organization's actions needs to be predominantly negative. When stakeholders are actively seeking and processing information about an organization, mixed messages which blend positive and/or neutral messages with negative coverage can lead to doubt that the discreditable behavior is serious, given that opinion leaders disagree about the gravity of the organization's actions.

The many stakeholders who have low motivation to actively seek information about a specific organization are not processing media reports about it in a highly attentive manner (Bargh and Ferguson, 2002). Instead, they process them peripherally (Petty and Cacioppo, 1986), which can revise their attitudes significantly (Wood, 2000), even when they are unaware of being exposed to new information. In this case as well, though, the media coverage must be predominantly negative to lead to downward estimates of the organization's legitimacy. Mere exposure to the organization through repeated, but not predominantly negative, coverage can simply increase these individuals' familiarity with it, which, all else being equal, is likely to produce a more favorable attitude (Janiszewski, 1993). Accordingly, when media messages are mixed, stakeholders who are processing information passively may be as likely to form more positive attitudes about an organization as they are to negatively recalibrate their reputational evaluations.

Moreover, whether stakeholders are active or passive information processors, even predominantly negative media coverage must be frequent to influence attitudes. People typically require multiple exposures to information for it to be incorporated into their belief structures (Hawkins and Hoch, 1992; O'Guinn and Shrum, 1997), and so infrequent media coverage of an organization's actions is unlikely to influence beliefs.

This logic can be illustrated by comparing the media coverage of the allegations of discreditable actions by Arthur Andersen and PayPal. Andersen's trial, and the publicity surrounding it, resulted in frequent, relentlessly negative media coverage. For example, between January 1 2002 and December 31 of that year, the *Wall Street Journal* alone ran 414 articles that referred to Arthur Andersen's dubious dealings with its vilified former client, Enron. In contrast, the media coverage of the allegations surrounding PayPal was minimal. For example, out of the 15 *Wall Street Journal* articles about PayPal in the year prior to its IPO, only one was negative. Because there were only mixed and infrequent signals about the firm's discreditable actions, PayPal was able to avoid reputational loss.

Thus, media coverage of an organization's discreditable actions must be both predominantly negative and frequent for stakeholders to decrease their perceptions of an organization's reputation. This leads to the following proposition:

Proposition 6: The relationship between perceived properties of discreditable actions and reputational loss is positively moderated by frequent, predominantly negative media coverage of the discreditable actions.

Discussion and Conclusions

The overall message of this article for future research and practice is that organizations that engage in discreditable actions, including unethical behaviors, which are revealed to external stakeholders, cannot be assumed to suffer reputational consequences. The content of stakeholders' pre-disclosure perceptions, and factors influencing their processing of new information, need to be taken into account if we want a fuller understanding of how and why reputational loss follows – or does not follow – revelations of an organization's discreditable actions.

Empirical testing of the relationships proposed in this study is a task for future research. In order to rigorously test the propositions using quantitative data, an appropriate first step would be the use of experimental methods. The advantage of such methods is that they allow for control of extraneous sources of variation, for measurement or manipulation of variables of interest, and for the inference of causality (Shaughnessy et al., 2006).

A further advantage of using such methods is that it should be feasible to adapt pre-existing measures for independent, moderator, and dependent variables to operationalize constructs contained in the proposed model. Within the marketing and consumer behavior literatures, there are studies that entail measures not only of attitudes but also of attitudinal change toward products or firms that have engaged in some types of discreditable behavior (e.g., Aaker et al., 2004). Similarly, studies within this literature have measured or manipulated independent variables very similar to those of focal interest in this study. For example, prior research has measured perceptions of controllability (e.g., Folkes et al., 1987), of (un)certainty (Grant and Tybout, 2008), of threat (e.g., Andrade and Cohen, 2007), and of deviance from group norms (e.g., Matta and Folkes, 2005). Likewise, prior studies have created measures or manipulations that well reflect both of the moderating variables proposed here such as outcome involvement (Ahluwalia, 2002) and frequency of exposure (e.g., Janiszewski and Meyvis, 2001). As well as adapting measures and manipulations developed in prior research, there is also the possibility that procedural aspects of the experimental methodologies used in studies such as those cited can be adapted to facilitate testing of the propositions.

Beyond testing the propositions developed here, it must be emphasized that although the three types of factors have been discussed separately in the article, factors of different types operate in tandem to increase or decrease the likelihood of reputational loss. Perceived properties of the actions themselves may vary considerably among an organization's stakeholders. When discreditable actions are perceived as so controllable, certain, threatening, and deviant that they result in legal action, the publicity associated with that legal action can exacerbate the reputational damage that ensued from the actions themselves. There is likely to be variability in outcome involvement even among those external stakeholders that matter most to an organization. Since the media favors stories about large groups (Baron, 2006), there is likely to be more frequent and negative media coverage related to the organizations and actions that large numbers of people are familiar and involved with.

This article helps to provide a foundation for future research aimed at examining such processes as the transfer of reputation loss from an organization to its affiliates or industry peers. For example, Andersen's actions had consequences for the entire auditing industry. Once evidence of the paper shredding surfaced, and the process of reputational loss was accelerated, other practices were held up for critical examination (Squires et al., 2003), and the ethical standards of the industry as a whole were the subject of considerable debate. Practices that were common among most firms before the Andersen case came to be considered unacceptable in only a matter of months (Dignan, 2002). The speed with which other firms changed their practices illustrates that other industry players were concerned about the threat of reputational contamination. In order to understand and predict such processes, future research would need to consider additional stakeholder factors, including the cultural and social influences on them.

From the perspective of practice, organization watchdogs must understand how external stakeholders process negative information, using a cognitive perspective to complement existing economic approaches. This knowledge is essential to understanding such phenomena as the "tipping points" or thresholds in people's reactions. Our case suggests that the tipping point for Arthur Andersen was the criminal conviction it faced, since it appeared to be a turning point in audience perceptions of controllability, certainty, threat, and deviance. There was no such tipping point for PayPal, and therefore despite discreditable actions that included some of debatable ethical virtue, the company's reputation appears to have remained virtually unblemished except among a small group of stakeholders sufficiently disgruntled to launch a class action suit against the firm. Because the electronic funds transfer industry was so new, there were few accepted norms and most external stakeholders were unsure of how to evaluate the firm in light of negative information.

Indeed, the research presented here suggests that numerous factors can buffer organizations from reputational loss following allegations of wrongdoing. These observations lend credence to Suchman's (1995) insight that organizations need not assume potentially damaging revelations will cause harm. As the case of PayPal illustrates, reputations can be relatively sticky and hard to lose unless certain conditions, related to actions, stakeholders, and media coverage exist.

However, an implication of reputational stickiness is that reputational loss is likely to be hard to recover from. Even before Andersen lost its court case, the firm's credibility was in a rapid downward spiral, judging by the defections of stakeholders (Dignan, 2002; Patsuris, 2002). Despite its long history of successful operations and high standing among its peers only months before the Enron revelations (Patsuris, 2002), once the process of reputational loss was underway, Andersen was unable to stop it. This example is one of multiple factors working in tandem. Andersen's discreditable actions were perceived as controllable, certain, threatening, and deviant, and the impact of these perceptions on reputational judgments was magnified by two factors: important outcomes for its clients were close tied to these actions, and there was frequent, and consistently negative media coverage of the actions. By providing an integrated model of these factors, this research suggests why discreditable actions might result in organizational damage in some cases but not in others, and helps to offer insight on why publicized instances of discreditable actions including ethical breaches may go unheeded by external stakeholders.

References

Aaker, J. S., S. Fournier and S. A. Brasel: 2004, 'When Good Brands do Bad', *Journal of Consumer Research* **31**, 1–16.

Ackman, D.: 2002a, 'How Andersen Blew It', *Forbes.com*, April 29.

Ackman, D.: 2002b, 'Andersen Guilty; Enron Still Unindicted', *Forbes.com*, June 17.

Ahluwalia, R.: 2002, 'How Prevalent is the Negativity Effect in Consumer Environments?', *Journal of Consumer Research* **29**, 270–279.

Akst, D.: 2003, 'Illegal Immigration: So Harmful and So Beneficial', *New York Times* December 7, 2003.

Andrade, E. B. and J. B. Cohen: 2007, 'On the Consumption of Negative Feelings', *Journal of Consumer Research* **34**, 283–300.

Arpan, L. M. and A. A. Raney: 2003, 'An Experimental Investigation of News Source and the Hostile Media Effect', *Journalism and Mass Communication Quarterly* **80**, 265–281.

Ashforth, B. and B. Gibbs: 1990, 'The Double Edge of Organizational Legitimation', *Organization Science* **1**, 177–194.

Bansal, P. and I. Clelland: 2004, 'Talking Trash: Legitimacy, Impression Management, and Unsystematic Risk in the Context of the Natural Environment', *Academy of Management Journal* **47**, 93–103.

Bargh, J. and M. Ferguson: 2002, 'Beyond Behaviorism: On the Automaticity of Higher Mental Processes', *Psychological Bulletin* **126**, 925–945.

Baron, D. P.: 2006, 'Persistent Media Bias', *Journal of Public Economics* **90**, 1–36.

Biernat, M. and J. Dovidio: 2000, 'Stigma and Stereotypes', in T. Heatherton, R. Kleck, M. Hebl and J. Hull (eds.), *The Social Psychology of Stigma* (The Guilford Press, New York), pp. 88–125.

Bikhchandani, S., D. Hirshleifer and I. Welch: 1992, 'A Theory of Fads, Fashion, Custom, and Cultural Change as Informational Cascades', *Journal of Political Economy* **100**, 992–1026.

Brickman, P., V. C. Rabinowitz, J. Karuza Jr., D. Coates, E. Cohn and L. Kidder: 1982, 'Models of Helping and Coping', *American Psychologist* **37**, 368–384.

Celsi, R. and J. Olson: 1988, 'The Role of Involvement in Attention and Comprehension Processes', *Journal of Consumer Research* **16**, 210–224.

Chen, S., D. Shechter and S. Chaiken: 1996, 'Getting at the Truth or Getting Along: Accuracy- Versus Impression-Motivated Heuristic and Systematic Processing', *Journal of Personality and Social Psychology* **75**, 262–275.

Crandall, C. S.: 2000, 'Ideology and Lay Theories of Stigma: The Justification of Stigma', in T. Heatherton, R. Kleck, M. Hebl and J. Hull (eds.), *The Social Psychology of Stigma* (The Guilford Press, New York), pp. 126–150.

Crocker, J., B. Major and C. Steele: 1998, 'Social Stigma', in S. Fiske and G. Lindzey (eds.), *Handbook of Social Psychology*, 4th Edition, Vol. 2 (McGraw-Hill, Boston), pp. 504–533.

Davidson, W. N. III and D. L. Worrell: 1988, 'The Impact of Announcements of Corporate Illegalities on Shareholder Returns', *Academy of Management Journal* **31**, 195–200.

Davidson, W. N. III. and D. L. Worrell: 1992, 'The Effect of Product Recall Announcements on Shareholder Wealth', *Strategic Management Journal* **13**, 467–473.

Davidson, W. N. III., D. L. Worrell and C. I. Lee: 1994, 'Stock Market Reactions to Announced Corporate Illegalities', *Journal of Business Ethics* **13**, 979–987.

Dignan, L.: 2002, 'After Andersen, Accounting Worries Stick', *Cnet.com*, June 17.

Dutton, J., J. Dukerich and C. Harquail: 1994, 'Organizational Images and Member Identification', *Administrative Science Quarterly* **39**, 239–263.

Elsbach, K. D.: 1994, 'Managing Organizational Legitimacy in the California Cattle Industry: The Construction and Effectiveness of Verbal Accounts', *Administrative Science Quarterly* **39**, 57–88.

Elsbach, K. and R. Sutton: 1992, 'Acquiring Legitimacy Through Illegitimate Actions: A Marriage of Institutional and Impression Management Theories', *Academy of Management Journal* **35**, 699–738.

Esch, K.: 2001, 'PayPal's Growing Pains', *Fortune Small Business*, September 3.

Fiol, C. M., E. J. O'Connor and H. Aguinis: 2001, 'All for One and One for All? The Development and Transfer of Power Across Organizational Levels', *Academy of Management Review* **26**, 224–242.

Folkes, V. S. and M. Kamins: 1999, 'Effects of Information About Firms' Ethical and Unethical Actions on Consumers' Attitudes', *Journal of Consumer Psychology* **8**, 243–259.

Folkes, V. S., S. Koletsky and J. Graham: 1987, 'A Field Study of Causal Inferences and Consumer Reaction: The View from the Airport', *Journal of Consumer Research* **13**, 534–539.

Fombrun, C. J.: 1996, *Reputation: Realizing Value From the Corporate Image* (Harvard Business School Press, Boston).

Gioa, D. and J. Thomas: 1996, 'Identity, Image and Issue Interpretation: Sensemaking During Strategic Change in Academia', *Administrative Science Quarterly* **41**, 370–403.

Goffman, E.: 1963, *Stigma: Notes on the Management of Spoiled Identity* (Prentice Hall, Englewood Cliffs, NJ).

Grant, S. J. and A. M. Tybout: 2008, 'The Effect of Temporal Frame on Information Considered in New Product Evaluation: The Role of Uncertainty', *Journal of Consumer Research* **34**, 897–913.

Hawkins, S. and S. Hoch: 1992, 'Low-Involvement Learning: Memory Without Evaluation', *Journal of Consumer Research* **19**, 212–226.

Hudson, B. A.: 2008, 'Against All Odds: A Consideration of Core-Stigmatized Organizations', *Academy of Management Review* **33**, 252–266.

Hudson, B. A. and G. A. Okhuysen: 2009, 'Not With a Ten-Foot Pole: Core Stigma, Stigma Transfer and Improbable Persistence of Men's Bathhouses', *Organization Science* **21**, 134–153.

Janiszewski, C.: 1993, 'Preattentive Mere Exposure Effects', *Journal of Consumer Research* **20**, 376–393.

Janiszewski, C. and T. Meyvis: 2001, 'Effects of Brand Logo Complexity, Repetition, and Spacing on Processing Fluency and Judgment', *Journal of Consumer Research* **28**, 18–32.

Johnson, B. and A. Eagley: 1989, 'The Effects of Involvement on Persuasion: A Meta-Analysis', *Psychological Bulletin* **106**, 290–314.

Jones, E., A. Farina, A. H. Hastorof, H. Markus, D. T. Miller and R. A. Scott: 1984, *Social Stigma: The Psychology of Marked Relationships* (Freeman, New York).

Kane, M.: 2002, 'eBay maps out Billpoint's demise', *CNET News.com*.

Keller, K.: 1993, 'Conceptualizing, Measuring, and Managing Customer-Based Brand Equity', *Journal of Marketing* **57**, 1–22.

Krazit, T.: 2003, 'Futuremark Says Nvidia Didn't Cheat But Broke Rules', www.infoworld.com, June 3.

Kroloff, G.: 1988, 'At home and Abroad: Weighing In', *Public Relations Journal*, October 8.

MacLean, T. L.: 2008, 'Framing and Organizational Misconduct: A Symbolic Interactionist Study', *Journal of Business Ethics* **78**, 3–16.

Maheswaran, D.: 1994, 'Country of Origin as a Stereotype: Effects of Consumer Expertise and Attribute Strength on Product Evaluations', *Journal of Consumer Research* **21**, 354–365.

Maheswaran, D. and S. Chaiken: 1991, 'Promoting Systematic Processing in Low-Involvement Settings: Effect of Incongruent Information on Processing and Judgment', *Journal of Personality and Social Psychology* **61**, 13–25.

Markoff, J.: 2002, 'VeriSign's Marketing is Subject of F.T.C. Investigation', *New York Times*, August 7, C2.

Matta, S. and V. S. Folkes: 2005, 'Inferences About the Brand From Counterstereotypical Service Providers', *Journal of Consumer Research* **32**, 196–206.

McQuail, D.: 1984, *Mass Communication Theory: An Introduction* (Sage, London).

McQuail, D.: 1985, 'The Sociology of Mass Communications', *Annual Review of Sociology* **11**, 93–111.

Min, Y.: 2002, 'Intertwining of Campaign News and Advertising: The Content and Electoral Effects of Newspaper Ad Watches', *Journalism and Mass Communication Quarterly* **79**, 927–945.

Mizerski, R.: 1982, 'An Attribution Explanation of the Disproportionate Influence of Unfavorable Information', *Journal of Consumer Research* **9**, 301–310.

Neuberg, S. L., D. M. Smith and T. Asher: 2000, 'Why People Stigmatize: Toward A Biocultural Framework', in T. Heatherton, R. Kleck, M. Hebl and J. Hull (eds.), *The Social Psychology of Stigma* (The Guilford Press, New York), pp. 31–61.

O'Guinn, T. and L. J. Shrum: 1997, 'The Role of Television in the Construction of Consumer Reality', *Journal of Consumer Research* **23**, 278–294.

Overfelt, M.: 2003, '4 Great Picks and 2 Misses …', *Fortune Small Business* **13**, 42.

Patrizio, A.: 2001, 'Reviewers Condemn Video Tweaks', www.wired.com, November 28.

Patsuris, P.: 2002, 'Andersen Clients Evacuate Post-Verdict', *Forbes.com*, August 18.

Petty, R. E. and J. Cacioppo: 1986, *Communication and Persuasion: Central and Peripheral Routes to Persuasion* (Springer, New York).

Pozner, J.-E.: 2008, 'Stigma and Settling Up: An Integrated Approach to the Consequences of Organizational Misconduct for Organizational Elites', *Journal of Business Ethics* **80**, 141–150.

Rao, H., H. R. Greve and G. F. Davis: 2001, 'Fool's Gold: Social Proof in the Initiation and Abandonment of Coverage by Wall Street Analysts', *Administrative Science Quarterly* **46**, 502–527.

Riffe, D., S. Lacy and F. Fico: 1998, *Analyzing Media Messages: Using Quantitative Content Analysis in Research* (Lawrence Erlbaum Associates, Mahwah, NJ).

Schudson, M.: 1978, *Discovering the News* (Basic Books, New York).

Shah, D. V., M. D. Watts, D. Domke and D. P. Fan: 2002, 'News Framing and Cueing of Issue Regimes: Explaining Clinton's Public Approval in Spite of Scandal', *Public Opinion Quarterly* **66**, 339–370.

Shaughnessy, J. J., E. B. Zechmeister and J. S. Zechmeister: 2006, *Research Methods in Psychology*, 7th Edition (McGraw-Hill, London).

Shoemaker, P. and S. Reese: 1990, 'Exposure to What? Integrating Media Content and Effects Studies', *Journalism Quarterly* **67**, 649–652.

Shrum, L. J.: 2002, 'Media Consumption and Perceptions of Social Reality: Effects and Underlying Processes', in J. Bryant and D. Zillmann (eds.), *Media Effects: Advances in Theory and Research* (Lawrence Erlbaum, Mahwah, NJ), pp. 69–95.

Skowronski, J. J. and D. E. Carlston: 1987, 'Negativity and Extremity in Impression Formation: A Review of Explanations', *Psychological Bulletin* **105**, 131–142.

Squires, S., C. Smith, L. McDougall and W. Yeack: 2003, *Inside Arthur Andersen: Shifting Values, Unexpected Consequences* (Prentice Hall, Englewood Cliffs, NJ).

Stuart, T. E., H. Hoang and R. Hybels: 1999, 'Interorganizational Endorsements and the Performance of Entrepreneurial Ventures', *Administrative Science Quarterly* **44**, 315–349.

Suchman, M. C.: 1995, 'Managing Legitimacy: Strategic and Institutional Approaches', *Academy of Management Review* **20**, 571.

Sutton, R. and A. Callahan: 1987, 'The Stigma of Bankruptcy: Spoiled Organizational Image and its Management', *Academy of Management Journal* **30**, 405–436.

Vaughan, D.: 1999, 'The Dark Side of Organizations: Mistake, Misconduct, and Disaster', *Annual Review of Sociology* **25**, 271–305.

Wiesenfeld, B. M., K. Wurthmann and D. C. Hambrick: 2008, 'The Stigmatization and Devaluation of Elites Associated With Corporate Failures: A Process Model', *Academy of Management Review* **33**, 231–251.

Wolverton, T.: 2002, 'Judge Rejects PayPal Arbitration', Vol. 2002: *CNETNews.com*.

Wood, W.: 2000, 'Attitude Change: Persuasion and Social Influence', *Annual Review of Psychology* **51**, 539–570.

A. Rebecca Reuber
Rotman School of Management,
University of Toronto,
105 St. George St., Toronto, ON M5S 3E6, Canada
E-mail: reuber@rotman.utoronto.ca

Eileen Fischer
Schulich School of Business,
York University,
4700 Keele St., Toronto, ON M3J 1P3, Canada
E-mail: efischer@schulich.yorku.ca