Guest Editorial

Beyond Corporate Reputation: Managing Reputational Interdependence

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> We are still an oil company, and we still have to live with the sins of our brothers. We were doing fine until Exxon spilled all that oil. Then we were painted with the same brush as them (Amoco executive, as quoted in Hoffman, 2001).

> 'Bhopal was the wake-up call,' says Dow Chemical vice president David Buzelli. 'It brought home to everybody that we could have the best performance in the world but if another company had an accident, all of us would be hurt, so we started to work together' (Rees, 1997).

> Under Responsible Care, the old chemical industry ethos of 'every company for itself' has given way to a culture of sharing and mutual aid. With the reputation of the industry only as strong as the weakest member, companies have a vested interest in ensuring best practices are broadly shared (CCPA, 2001).

The company you keep affects the company you keep. That is, a firm's reputation depends upon more than just its own actions. The actions of surrounding firms also shape a firm's reputation and ultimately its performance. Nonetheless, corporate reputation researchers have given little attention to this interdependence and how firms manage it. Corporate reputation research has largely bounded its domain of study at the corporate level. This special issue seeks to broaden the scope of reputation research and direct further attention to the understudied interorganizational context in which reputation is formed and altered.

Corporate reputation has traditionally been defined as: 'Observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time' (Barnett *et al.*, 2006: 34). But how do observers make these judgments? Firms may produce objective measures of their performance, but assessment of these measures remains subjective. For example:

— Is a 12 per cent return on assets considered to be strong financial performance?
— Does a $10m charitable contribution indicate that a firm is engaging in a high level of social responsibility?
— Is a 7 per cent reduction in carbon emissions an adequate response to the environmental issues facing a firm?

Context matters greatly when observers make judgments about a particular firm at a particular point in time. Reputation researchers have accounted for the temporal context, noting that observers judge a firm's current actions relative to its prior actions, deciding if particular levels of performance are better or worse than expected based on the focal firm's history (Barnett, 2007a). Thus, if a firm donated $5m to charity in the prior year, a $10m donation this year might improve its reputation. On the

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other hand, if the prior years' donation was $50m, a $10m contribution might fall short of expectations and so decrease its reputation.

But reputation researchers have given little heed to the comparative context. Firms can look better, and often worse, by comparison with other firms, not just by comparison with their own histories. As the opening quotes point out, one firm's poor behavior can taint the reputation of all firms in an industry. On the other hand, one firm's exemplary behavior can ratchet up expectations, leading to a decline in the reputation of firms that do not keep pace. For example, a firm's $10m charitable donation would make its rivals' $1m donations seem paltry by comparison.

To effectively manage corporate reputation, then, firms must look beyond their corporate borders. They need to understand how their reputations and their performance are influenced by inter-organizational interdependence, and they need to understand how they can manage this interdependence. This special issue aims to bring us closer to such an understanding.

OVERVIEW OF THE PAPERS IN THIS SPECIAL ISSUE

For this special issue, we sought rigorous academic studies that demonstrated the existence and dynamics of reputation beyond the corporate level, outlined specific instances of how firms managed their reputational interdependence and linked such management practices to the performance and survival of participating firms. We were fortunate to find five papers that covered all these bases from a combination of theoretical and empirical perspectives.

In this issue's first paper, *Understanding competitive and contagion effects of layoff announcements*, Sheila Goins and Thomas Gruca offer an empirical examination of how a layoff announcement by one petrochemical firm affects the reputations of other petrochemical firms. They establish competing hypotheses regarding whether this spillover (from 'information transfers') affects rivals in the same way that it affected the announcing firm (contagion), or whether rivals will experience an opposite (competitive) affect. They also hypothesize effects regarding the frequency of layoff announcements (more announcements mean more spillovers), announcing firm prominence (an announcement by a prominent firm means more information transfers), and similarity of firms (the more similar the firms, the more information transfers). The authors find support for the contagion and frequency hypotheses, but not for prominence. The similarity hypothesis receives mixed support. They conjecture that these mixed findings indicate a mixed stakeholder reaction to layoff announcements, combining the effects of information transfer with any competitive advantage that a firm might gain relative to a rival that has suffered layoffs. Overall, this paper empirically establishes that the actions of one firm reflect on its rivals and draws out some of the factors that influence this spillover.

In the second paper, *Managing industry reputation: The dynamic tension between collective and competitive reputation management strategies*, Monika Winn, Patricia McDonald and Charlene Zietsma move us from a focus on the phenomena of reputation spillovers to a focus on the intra-industry dynamics of such spillovers as well as the active strategies firms can use to affect them. Using a qualitative, longitudinal comparative study of two Canadian industries (forestry and salmon fishing in British Columbia), the authors describe strategies companies used to cope with reputational spillovers created by corporate social responsibility (CSR) crises after being attacked by environmental stakeholders. The authors show that, over time, companies balance collective reputation management with competitive reputation management, and part of the strategy for managing reputational interdependence is to partition the industry into sub-groups. Thus, the authors explore the mixed-motives of collective and competitive reputation management within an industry sub-group.

In their paper, *Running just to stand still? Managing CSR reputation in an era of ratcheting expectations*, Stephanie Bertels and John Peloza take us from analyzing intra-industry reputation effects to considering inter-industry effects. Using a qualitative, theory building study of how a firm's reputation for CSR is set, the authors conclude that industry and geography influence expectations of a firm's CSR activities, and this creates a ratcheting effect over time that leads to increasing expectations of more CSR activities. This study highlights how expectations of firm and industry CSR over time lead to interdependence beyond the immediate industry players. The authors suggest that geography can trump industry in determining reputation such that spillovers can 'jump across industry boundaries.'

Alex Bitektine, in his paper, *Legitimacy-based entry deterrence in inter-population competition*, brings the discussion in a different direction by offering theory and case studies that develop a typology of collective strategies that a population of firms may use to stave off entry from potential new entrants of a competing organizational form. He highlights how a population of firms recognizes its interdependence and engages in communal practices that are designed to shape the legitimacy of potential rivals. These firms create population-level spillover effects by engaging in practices that alter the perceptions or requirements for legitimacy in the field, and in doing so, damage the legitimacy of potential new entrant populations. The author outlines some 42 instances of these practices and provides selected vignettes.

Finally, Tieying Yu and Richard Lester, in *Moving beyond firm boundaries: A social network perspective on reputation spillover*, complete our set of papers by proposing that interdependence depends on network position. A nice compliment to the Goins and Gruca paper, this paper offers a theoretical perspective using social network analysis to describe the context, pathways and domains through which reputational spillovers can occur. By considering an industry as a network, the authors attend to both proximity and structural equivalence to explain why and when spillover effects may occur. The more frequent the communication ties between two organizations, and the more similar the network position and types of network ties between these organizations, the more likely they are to resemble one another and share common perceptions of reputation from stakeholders. Consistent with a network analysis, these two variables are moderated by the focus of a reputational crisis that may affect the industry of which an organization is a part. If the crisis impacts a central organization in the network or if the network is of a centralized structure, the effects of proximity and structural equivalence will be increased.

We are also fortunate to have insightful reviews of two books on the topic of reputational interdependence. Timothy Hargrave reviews *The Voluntary Environmentalists: Green Clubs, ISO 14001, and Voluntary Environmental Regulations*, by Aseem Prakash and Matthew Potoski (Cambridge University Press). As Hargrave points out, this book does a wonderful job of analyzing a variety of contextual elements that influence whether or not firms will participate in 'green clubs' as a means of improving their reputation for environmental performance, and it provides rigorous measures of the effectiveness of these green clubs at actually improving member firms' environmental performance. He also points out that there are myriad ways to expand Prakash and Potoski's perspective to shed further light on the problem of how firms manage their shared reputation while also seeking to stand apart from rivals. Sergey

Osadchiy then reviews Joel Podolny's book, *Status Signals: A Sociological Study of Market Competition* (Princeton University Press). Osadchiy delves into the distinction that Podolny makes between status and reputation, and he deftly points out some of the limitations of Podolny's narrow view of reputation while identifying some insightful ways to enrich it.

TOWARD AN EXPANDED VIEW OF CORPORATE REPUTATION

Shown by the solid arrow that extends across the center of Figure 1, the literature traditionally views a firm's reputation at a point in time (t_0) as the culmination of observations of its behaviors prior to that point in time. This reputation drives observers' expectations about how that firm will behave thereafter. A reputation thus functions as a tool that enables observers to more accurately predict the behaviors of a firm – whether the firm is likely to treat its customers with respect, create high returns for its shareholders, be supportive of its community, care for its employees and so forth. In many situations, potential customers and other key stakeholders may have little else to rely on and so may base decisions about how they interact with a firm primarily on that firm's reputation.

The studies in this special issue expand the traditional view of this important construct by establishing that a firm's reputation also depends upon the actions of other firms. Moreover, these studies develop concepts of reputations situated beyond the corporate level. As depicted by the dashed lines in Figure 1, in determining a firm's reputation, observers may see more than just that firm's prior actions. Observers see and make judgments about the past behaviors and develop expectations of the future behaviors of groups of related firms – industry sub-groups, entire industries and even inter-industry groups. As a result, a firm's reputation becomes intertwined with that of other firms within and even outside of its industry.

But which other firms' actions influence a given firm's reputation? And what is the nature of this interdependence? Goins and Gruca find a 'contagion' effect in the oil and gas industry whereby a layoff announcement at one firm causes observers to update their assessments of other firms in the industry. They also find heterogeneity in spillovers

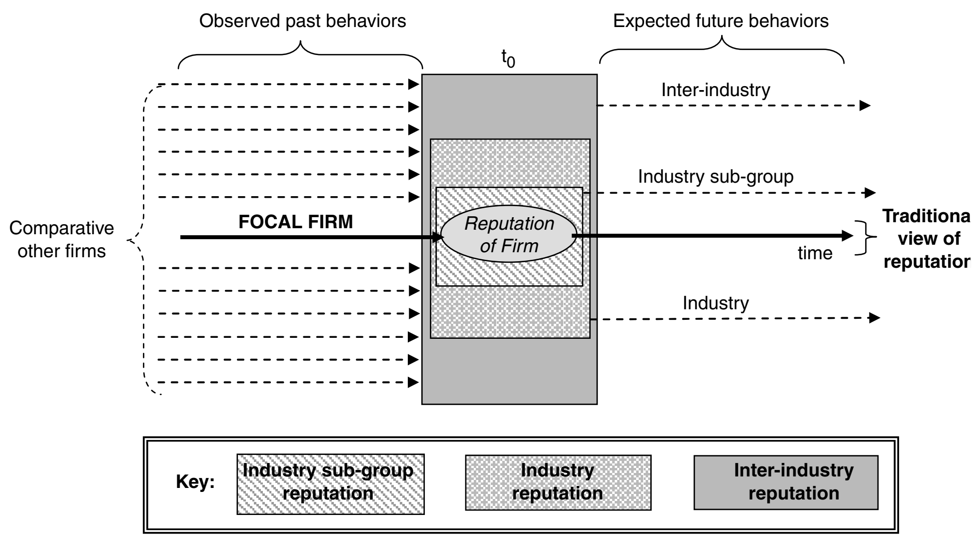

***Figure 1**: An expanded view of reputation*

across the firms in an industry. More immediate rivals of the focal firm suffer less negative spillovers than do more distant rivals, presumably because they receive some competitive benefit to offset the spillover as their more direct rival is confronted with the need to downsize.

These findings fit with the theoretical arguments of Yu and Lester, who argue that network position explains differences in the degree of negative intra-industry spillover. On the other hand, Bertels and Peloza find that geography can explain heterogeneity in spillovers. They argue that expectations for firms' levels of CSR are set, in part, by geographic proximity. As a result, contagion effects can extend beyond industry boundaries and also be a function of geographic boundaries.

Bitektine's study adds further complexity to our expanded model of reputation by introducing lifecycles into the story and fleshing out how emerging populations are judged relative to existing populations. Researchers have considered how the initial success of a few firms can legitimize a particular organizational form and so ease the path for new entrants into an industry, but Bitektine notes how the behaviors of an existing population alter (often by design) expectations of a new population trying to challenge it. Thus, the potential influences on a firm's reputation stretch well beyond its own history and include intra-industry, industry and inter-industry effects of varying magnitude.

The Goins and Gruca study also adds an interesting nuance to reputational interdependence that we would like to highlight: the contagion effect can be either positive or negative. That is, they find that when the market reacts positively to the focal firm's layoff announcement, then the spillover to other firms is also positive, and vice versa – a negative focal response leads to a negative spillover. The notion of a bi-directional contagion effect fits with the broader social movements literature on 'radical flank effects' (Haines, 1984) which can have both negative and positive outcomes (Gupta, 2002). The effects of more radical organizations in a social movement can have a negative effect on moderate groups by creating a comparison affect and a backlash among opposing groups. In this negative radical flank effect (Haines, 1984), all members of the environmental movement are viewed in the same way as the more visible radical members. 'Even if moderates and radicals embrace considerably different goals and tactics, their coexistence and common identification as members of the same movement field reflects badly on the moderates and harms their ability to achieve their objectives' (Gupta, 2002: 6). So, for example, when an environmental extremist group creates headlines for a terrorist act, all environmental groups may be viewed in the same light, thus limiting their ability to operate as legally or psychologically legitimate members of social debates (Hoffman, 2007).

But the effects of more radical organizations in the movement can also have a positive effect on moderate groups by creating a contrast effect (Haines, 1984). All members of the environmental movement are viewed in contrast to other members and extreme positions from some members can make other organizations seem more reasonable to movement opponents (McAdam, 1992). For example, militancy by radicals in the civil rights movement in the 1960s increased the level of funding for moderate groups (Haines, 1984). Or, when the Rainforest Action Network threatened to protest at Staple's for the company's limited offerings of recycled paper, the company became more inclined to solicit the assistance of an environmental group that was seen as more moderate and therefore more palatable and legitimate for a partnership (Hoffman, 2007). Exemplifying the positive flank effect, Russell Train, second administrator of the US Environmental Protection Agency

(EPA), once quipped, 'Thank God for the David Browers of the world. They make the rest of us seem reasonable' (US EPA, 1993).

CATEGORIES OF REPUTATION MANAGEMENT BEYOND CORPORATE BORDERS

What can firms do about these many levels and types of reputational interdependence? The means of managing reputational interdependence uncovered in this special issue can be generalized as fitting within three broad themes: (1) *Keeping up with the Jones's*; (2) *Teaming up with the Jones's* and (3) *Fencing out the Jones's*.

Keeping up with the Jones's: As we have previously noted, the literature traditionally views reputation as the culmination of observers' assessments of a firm based on that firm's prior actions. In this tradition, Barnett (2007a) pointed out that a firm's financial performance can influence observers' assessments of its social performance, such that if its financial performance rises, it brings with it increasing expectations of its social performance. In the expanded view of reputation put forward in this special issue, Bertels and Peloza also outline a 'ratcheting effect' whereby firms must continuously improve their social performance 'just to stand still,' but they show that these increasing expectations can come from outside the firm, from the increasing social performance of comparative other firms.

Hoffman and Woody (2008) tell a similar story regarding 'arms races' for environmental performance:

> At times, these attempts at one-upsmanship can resemble an arms race. For example, there seems to be a race among financial management firms to become the greenest in the sector. In 2005, Goldman Sachs was one of the first investment banks to release an environmental policy framework that specifically mentioned its lending guidelines. The policy addressed renewable and alternative energy investments, creating more efficient markets for environmental products and services, and pledged to examine environmental risk and associated business opportunities. Not to be outdone, Bank of America announced a new program in March 2007 that involved earmarking $20 billion in funds over 10 years towards financing green buildings and energy-efficient technologies, assisting companies in trading carbon-emissions credits and providing financial and advisory services to businesses developing environmentally friendly products. Shortly thereafter, Citigroup announced that it will direct $50 billion over 10 years to address climate change through investments, financing and related activities that support the commercialization of alternative energy and clean technology among its clients and markets as well as within its own businesses and operations. And finally, in August 2007, Morgan Stanley announced a plan to spend $3 billion on initiatives related to greenhouse gas (GHG) emission reductions during the next five years. It has committed to reducing GHG emission by between 7 and 10% below 2006 levels by 2012 through energy efficiency and new green buildings, and it plans to become carbon neutral by 2008.

Thus, as firms improve their performance in an attempt to distinguish themselves from one another, this creates rising expectations across firms, and so one key strategy to manage such reputational interdependence is simply to keep pace with comparative others.

Teaming up with the Jones's: Sometimes, there is not much of an arms race at all. Instead, an industry may find its reputation ratcheting down, or suddenly plummeting, and even have its legitimacy challenged (Barnett, 2006a). To protect and improve its own reputation, a firm may have to team up with the Jones's to collectively improve its industry's reputation (Barnett, 2002; King *et al.*, 2002). For example, in the 1980s Dow Chemical conducted public surveys around their Canadian plants to find out at what distance their reputation did not exceed that of the rest of the industry. The disturbing answer was only three kilometers. It became clear that the firm could not stand out as clean in an industry that was perceived as dirty. To correct this problem, the company was able to influence the creation of the Chemical Manufacturers Association's Responsible Care Program. By so doing, it was able to institutionalize its own internal environmental programs as a condition of membership for the trade association. Cooperation was possible because the program was a way to improve the image of the industry as a whole (Hoffman, 2001).

Barnett (2006b) proposed that this type of coordinated action would take place primarily through industry-level trade associations such as the Chemical Manufacturers Association. The studies in this special issue, though, draw out a more nuanced picture. Winn *et al.* tell the story of two Canadian industries under sustained attack and outline instances of how firms in these industries worked alone as well as together to stave off the consequences of a negative industry reputation. Bertels and Peloza also note a variety of independent efforts to overcome industry level harms, but they also identify instances of firms teaming up across industry boundaries to deal with problems of reputational interdependence. Finally, Bitektine makes the interesting argument that firms sometimes team up to influence observers' assessments of other competing populations.

Fencing out the Jones's: A logical solution to reputational interdependence is to become more independent. If a firm is at reputational risk by being associated with the poor behaviors of another firm, and it can find a way to convince observers that it is not, in fact, similar to the poor-performing firm, then it eliminates this risk. Prakash and Potoski identify various characteristics of voluntary environmental programs, or 'green clubs,' that firms join in order to signal to observers that their environmental performance is superior to that of non-members. Thus, a firm can look better than the Jones's by joining an exclusive club to which the Jones's do not qualify for admittance.

As Hargrave discusses in his book review, though, firms may also distinguish themselves through independent actions – they need not join a club to convince observers that they are superior to their rivals. As a result, when seeking to fence themselves off from other firms, firms must effectively walk a fence of their own, balancing independent and interdependent strategic actions (Barnett, 2006b). Winn *et al.*'s study focuses precisely on this balancing act, fleshing out how firms in different industries handle this dynamic tension.

WHERE DO WE GO FROM HERE?

There remain many issues that call out for further research. For example, in Figure 1, where are the observers situated? The construct of reputation is built on the notion that people are observing firms' behaviors. The point of this special issue is to highlight that when people are making their observations of a firm, they see more than just the focal firm's actions. But what do they see? It would be interesting to distinguish conceptually between, for example, a peripheral viewer and a prism viewer. If observers are situated at the center of Figure 1, directly observing a firm, the actions of nearby firms might also fall into their field of vision. However, if they are situated at the top center of Figure 1 (near t_0), as they look down to observe the firm, they see it through inter-industry, industry and intra-industry prisms. Thus, observers' views of a particular firm would be filtered through these various lenses.

Along these lines, how do observers differ in terms of what they see? Observers must be assumed to be boundedly rational. How does their limited attention and associated biases and heuristics influence what they attend to and how they interpret it? Such factors would help to determine a firm's set of 'comparable other' firms – basically, those firms with which it is reputationally interdependent. Barnett (2007b) and Barnett and King (forthcoming) have done some preliminary work to identify the 'breadth of the brush' in terms of determining how much an accident at one firm will lead to a 'tarring by the same brush' of other firms within the same industry, but much more fine-grained work needs to be done here. The studies in our special issue suggest that tarring occurs across industry boundaries and may depend upon network position, for example.

What even prompts observers to attend to and update their assessment of a particular firm? Some firms are covered regularly by analysts, and some firms are closely watched by activist groups, but the day-to-day actions of most firms remain unobserved by most stakeholders unless firms choose to attract attention through a press release or they err and so are thrown into the spotlight. There have been studies that suggest, for example, that positive events are less likely to garner attention than negative events. But in terms of reputational interdependence, might there be a threshold level of bad or good behavior on the part of one firm that must be met before it attracts attention to other firms? If we consider that groups of firms have reputations, might the threshold for updating the reputation of larger groups be higher than that of individual firms or smaller groups?

From a reverse perspective, in terms of managing reputational interdependence, how do firms and groups of firms differ in what they pay attention to? Hoffman and Ocasio (2001) find that industry-level attention to critical events depends on either outsiders holding the industry accountable for the event or insiders' internal concerns with the industry image. Over time, an event can be transformed into a critical issue for an industry, warranting sustained attention, if there is contestation with outsiders over the accountability for the event and its enactment and internal contradictions and challenges to the industry's identity. Thus, not all events are attended equally both by industry participants and external observers.

We might also begin to consider the extent to which negative and positive spillovers differ. Are the processes the same by which these opposite outcomes can occur? Can such outcomes be actively managed? Firms may at times wish to create a positive flank effect relative to their industry peers in order to reap reputational benefits. But, as yet, the mechanisms that lead to one outcome or another are unclear.

Though we have the good fortune to present several interesting studies in this special issue, there is still much to be done to address reputational interdependence. We hope this special issue serves as a well-heeded call to take a closer look at this important area of inquiry.

A FINAL THANKS

We close by thanking our authors, reviewers and the folks at *CRR*. We thank our authors for entrusting us with their work and enduring the review process. We thank our reviewers for engaging in free labor without the promise of authorship glory. Our fine reviewers include Tima Bansal, David Deephouse, Marlena Fiol, Naomi Gardberg, Pursey Heugens, Dominic Kaeslin, Andrew King, James Oldson, Mike Russo, John Selsky, Sankar Sen, Sanjay Sharma, Deb Vidaver-Cohen, Sandra Waddock and Mark White. We thank the editors of *CRR* for giving us the green light to move forward with this special issue and we thank the supportive staff at *CRR* for all their help in coordinating it. Finally, a special double thanks to Pursey Heugens who also served as a 'been

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