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The importance of reputation and legitimacy for financial supervisors

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“The way to gain a good reputation is to endeavour to be what you desire to appear.”

Socrates

Abstract

Financial supervisors, apart from that of a narrow professional audience, are rarely in the spotlight of the general interest of society or that of communication studies. Likewise, although reputation and legitimacy are intensely researched concepts in various academic fields, when it comes to the public sector, they remain in the blind spot of investigations. Due to the recent financial crisis, however, financial regulators' media and social salience gained importance in the past few years, leading to the need for more profound understanding on their organisational specificities relevant for stakeholder interaction.

Against this background, the paper aims to fill in a gap identified in the intersection of an intensely and a scarcely researched academic area, by providing, for the first time, a targeted and systematised literature review, analysis and collection of stylised facts and empirical results relevant for the financial supervisory and regulatory context.

The research question that the current study intends to explore is that strong positive reputation and legitimacy bring valuable benefits to supervisors, enable the widening of the room for manoeuvre, and ultimately, lead to the reduction of implementation costs of regulatory changes and that of interventions. In order to gain proper insight and validate the plausibility of this hypothesis, the present paper analyses key related concepts – such as transparency, credibility, trust, processes of judgement formation, forms and elements of reputation and legitimacy – and empirical findings on public sector entities.

Organised around the assessment of the above referred research question, the analysis proves that – such as common understanding in the corporate world – legitimacy and reputation are sophisticated resources attributing important benefits to the organisation, which shall not be left unexploited by financial supervisors either. It is shown that the opportunity provided by legitimacy and reputation through a higher level of credibility, recognition, and trust granted by the members of the society translates into enhanced, voluntary deference and higher acceptance of the authority's decisions, which lead to the widening of the room for manoeuvre. As a first targeted and

systematised review and analysis, the paper also serves as a firm base for future, practice oriented research on relevant optimal strategies that would empower financial supervisors to achieve the desired degree of reputation and legitimacy in order to take advantage of their full potentials while serving the public interest.

Keywords: organisational reputation; legitimacy; financial supervisors; financial regulators; public sector; room for manoeuvre; regulatory policy; cost of intervention.

Resumo

Os supervisores financeiros, com a excepção de um público profissional restrito, raramente se encontram no foco do interesse geral da sociedade ou dos estudos de comunicação. Da mesma forma, embora reputação e legitimidade sejam conceitos intensamente pesquisados em vários campos académicos, quando se trata do sector público, estes são marginalmente estudados. Devido à recente crise financeira, no entanto, a saliência mediática e social dos reguladores financeiros ganhou importância nos últimos anos, levando à necessidade de um entendimento mais profundo sobre as suas especificidades organizacionais relevantes do ponto de vista da interacção com os *stakeholders*.

Neste contexto, a dissertação pretende preencher uma lacuna identificada na intersecção de duas áreas académicas – uma intensamente, outra pouco pesquisada –, fornecendo, pela primeira vez, uma revisão bibliográfica direccionada e sistematizada, bem como uma análise e recolha de factos estilizados e resultados empíricos relevantes para o contexto da supervisão e regulação financeira.

A questão de pesquisa que a dissertação pretende explorar é que reputação e legitimidade fortes e positivas trazem valiosos benefícios aos supervisores, permitindo a ampliação da margem de manobra e, por fim, resultando na redução dos custos de implementação de alterações regulatórias e de intervenções. A fim de obter uma percepção adequada e validar a plausibilidade dessa hipótese, o actual estudo analisa conceitos-chave – como transparência, credibilidade, confiança, processos de formação de juízo, formas e elementos de reputação e legitimidade – e resultados empíricos sobre entidades do sector público.

Organizado em torno da avaliação da questão de pesquisa acima referida, o estudo prova que – tal como o entendimento comum no mundo corporativo – legitimidade e reputação são recursos sofisticados que atribuem benefícios importantes à organização, e que estes não devem ser deixados desaproveitados pelos supervisores financeiros. É demonstrado que a oportunidade proporcionada pela legitimidade e reputação, através de um maior nível de credibilidade, reconhecimento e confiança concedidos pelos membros da sociedade, se traduz em maior e voluntária deferência e

maior aceitação das decisões da autoridade, o que leva ao alargamento do espaço de manobra. Como primeira revisão e análise direccionada e sistematizada, a dissertação também serve como uma base sólida para futuras pesquisas práticas sobre estratégias ideais relevantes que capacitariam os supervisores financeiros a alcançar o grau desejado de reputação e legitimidade, a fim de tirar proveito absoluto do seu potencial enquanto servem o interesse público.

Palavras-chave: reputação organizacional; legitimidade; supervisores financeiros; reguladores financeiros; sector público; espaço de manobra; política regulatória; custos de intervenção.

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Introduction

Financial supervisors, apart from that of a narrow professional audience, are rarely in the spotlight of the general interest of society or that of communication studies.[1] Likewise, although reputation and legitimacy are intensely researched concepts in various academic fields, when it comes to the public sector, they remain in the blind spot of investigations. Due to the recent financial crisis, however, financial regulators' media and social salience gained importance in the past few years, leading to the need for more profound understanding on their organisational specificities relevant for stakeholder interaction.

In this line, the hypothesis that the current paper intends to explore is that strong positive reputation and legitimacy bring valuable benefits to supervisors, enable the widening of the room for manoeuvre, and ultimately, lead to the reduction of implementing costs of regulatory changes and that of interventions. In order to gain proper insight and validate the plausibility of this hypothesis, the present study analyses key related concepts – such as transparency, credibility, trust, processes of judgement formation, forms and elements of reputation and legitimacy – and empirical findings on public sector entities.

Accordingly, the paper is structured as follows: Chapter 1 elaborates on the definitional landscape, the mechanisms of constitution, and related concepts of reputation, gradually narrowing the scope from theories relevant for organisations in general towards public sector entities. In this regard, results of empirical research and stylised facts on the benefits of reputation for public authorities are identified. By turning to the second key concept and with the aim to gain understanding on the role and importance of legitimacy for financial supervisors, Chapter 2 sheds light on the essence, the various forms, and the respective influencing factors thereof. Theoretical frameworks for the construction of relevant social judgements and the attribution of

[1] To note that the current paper focuses on financial supervisors other than central banks. Research interest on these latter entities regarding the nature, effects, and transmission channels of external communication strategies, as well as their interaction with monetary policy are far more pronounced than that attributed to securities market commissions or similar supervisory entities lacking observable policy instruments. Although supervision and regulation are two distinct functions, given that in practice they are attributed to the same public agency based on the respective competence, the terms 'financial supervisors' and 'financial regulators' are used interchangeably in the text.

legitimacy are also explored. With a synthesising approach, Chapter 3 provides a comparative and relational analysis of the two concepts, examining the similarities, overlaps and distinguishing features, also covering the most relevant relationships between them. Finally, stock is taken on the evidence gathered throughout the paper to conclude on the plausibility of the hypothesis under scrutiny, and future directions of research are suggested.

Chapter 1 – Reputation

In order to assess the hypothesis put forward by the current paper, the respective building blocks of reputation – such as organisational identity, image, and reputation – and later on, those of legitimacy, shall be defined and reviewed. Accordingly, the current Chapter provides a brief overview on the most important reputation related concepts, principal aspects, and essential links between them, proceeding from a general perspective towards the restricted scope of interest, identifying the specific features related to public authorities in this domain.

Section 1 – Definition, constitution, and relevant factors

Given the elevated importance of the relationships between the organisation and its stakeholders, extensive theoretical research on the fields of organisational studies, communication and marketing aims to capture the essence, key elements and processes thereof, leading to various approaches, overlapping concepts and sometimes contradicting frameworks. Meanwhile, to facilitate consistency and comparability of studies, authors – such as Hatch and Schultz (2000); Brown, Dacin, Pratt, and Whetten (2006); Barnett, Jermier, and Lafferty (2006) – make considerable attempts to systematise these terminologies by identifying the main aspects on which the applied approaches intend to reflect, and to arrive to certain harmonised, consensual terms and definitions, which will be briefly reviewed in the forthcoming subsections.

Definitional landscape

While reputation can be defined in broad terms as a set of beliefs or opinions on something, or as explained by the Online Merriam-Webster Dictionary,

"*the overall quality or character as seen or judged by people*", in institutional communication, its roots are reaching back to the soul of the organisation, to organisational identity, and is also closely related to organisational image.

To reveal the intuition behind these base concepts, Brown et al. (2006) identify four different points of view – illustrated on Figure 1 – from which the organisation can be observed. Accordingly, Line 1) represents the perspective of the organisation's members, answering the question "*who we are*" ('identity'); Line 2) and 3) refer to the perspective of the organisation, addressing the questions "*what the organisation wants others to think about it"* ('intended image') and *"what the organisation believes others think about it"* ('construed image'); and finally, Line 4) expresses the point of view and actual evaluation of stakeholders ('reputation').

Following the first description given by Albert and Whetten (1985), the various definitions share the common ground that organisational identity refers to members' view on deep-stated questions that reflect the overriding purpose of the entity. The referred authors summarise its essence in its *"central, distinctive and enduring (CED) aspects"* (ibid., p. 100), which turn organisational identity to a kind of self-reflection. It involves the mission, the vision and the values, or in other words, the culture of the organisation.

Corporate identity is defined by Dowling (2001) as "*the symbols and nomenclature that an organisation uses to identify itself to its people (such as name, logo, style, signature, etc)"* (ibid., p. 19). It is not only transmitted by visual elements, but according to Birkigt and Stadler's identity mix referred by Bronn (2010, p. 309), it includes other forms by which the entity presents itself through symbols, communication and the behaviour of its members. Furthermore, Balmer and Greyser (2002) consider that, by examining from different perspectives, 'actual', 'communicated', 'conceived', 'ideal', and 'desired' identity can be distinguished. Among these, external communication relates directly to the 'communicated', 'conceived' and 'ideal' identity, as they are being transmitted, influenced or set as an objective for it. On Figure 1, these latter categories already blend the relations defined by Lines 1 and 2.

While (corporate) identity can be interpreted as the ideal picture how the organisation wants to be seen, (corporate) image is the immediate impression that

individuals have thereon. Similarly, Dowling (2001) refers to image as *"a global evaluation (comprised of a set of beliefs and feelings) a person has about an organisation"* (ibid., p. 19). It is a dynamic assessment that gets updated as soon as new information is available on the entity. Although image can be actively managed by communication, it is also affected by factors beyond the organisation's control.

On the relationship of identity and image, Abolafia and Hatmaker (2013) highlight that *"identity is the product of self-reflection",* while image is "*about projection*" (ibid., p. 534), it is the way how an organisation believes that it is perceived by others, the reason why Dutton and Dukerich (1991) suggested the use of 'construed external image' – also considered the most adequate term by Brown et al. (2006) for this relationship.

As referred earlier, depending on the subject field of the study, different aspects may become relevant while defining certain concepts. To explain the incentives of managers to actively communicate and shape the construed image to align it with the organisational identity, Gioia, Price, Hamilton, and Thomas (2010) incorporate stakeholder theory in their definition and define image as "*a way how organizational elites wish stakeholders to view the organization*" (ibid., p. 66). The result is a more practical approach that facilitates the empirical application, opening the way for image management.

According to the consensus view of the relevant literature, reputation, unlike the snapshot-like image, is established over time and reflects a more enduring evaluation; it is the accumulation of past images captured by the organisation's audience. As summarised by Dowling (2001), it can be defined as *"the attributed values (such as authenticity, honesty, responsibility and integrity) evoked from the person's corporate image"* (ibid., p. 19).

By analysing the definitional landscape, Fombrun and van Riel (1997) demonstrate the fragmented, specialised nature of the concept in the various academic fields, and distinguish five different approaches thereof – the economic, the strategic, the marketing, the sociological, and the accounting view. To conciliate these approaches, the scholars suggest the use of the integrative definition determined by Fombrun and Rindova, which reads as *"a collective representation of a firm's past*

actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders" (ibid., p. 10). In a later publication of his, Fombrun (2012) then defines corporate reputation as the *"collective assessment of a company's attractiveness to a specific group of stakeholders relative to a reference groups of companies with which the company competes for resources"* (ibid., p. 100).

Furthermore, based on their literature overview, Lange, Lee, and Dai (2011) underline the multidimensional nature of the concept, and identify three dominant conceptualisations thereof, namely: 'being known' – referring to the *"extent of awareness and knowledge of the organisation"* – 'being known for something' – concerning *"the level of confidence with which specific predictions of the organisation's future behaviour (…) are held"* –, and 'generalised favourability' – entailing the *"level of intensity with which (…) judgements of the overall organisation are held"* (ibid., p. 163).

Related to the dimensions identified by Lange et al. (2011), the literative review of Mariconda and Lurati (2014) shall be referred, that carries out a comparative analysis on the differences and relations between the concepts – such as visibility, public prominence, and familiartiy – used to refer to the publics' knowledge of an organisation. The study defines these terms as follows (ibid., p. 221): 'media visbility' as *"the extent to which the media give attention to or cover an organisation"*; 'public prominence' as *"the degree to which a firm comes to mind and receives collective recongition by all stakeholders"*; and 'familiarity' as *"the extent to which someone is knowledgable about a given organisation".* The authors conclude that while visibility and public prominence are effective to capture the public recognition gained by the organisation, familiarity is more adeqaute to express the 'depth' of the knowledge stakeholders have about the organisation. One of the paper's particularly relevant conclusions for entities – such as financial supervisors – active in a niche area is that organisations with lower media visibility and prominence might still retain high familiarity through personal experience.

With the aim to enhance the precision of empirial studies, Rindova and Martins (2012) also offer a multi-dimensional perspective on reputation, as a strategic intagible asset to firms, integrating three distinct perspectives, namely, game-theoric, social-construtionist, and institutional perspectives. As the scholars explain, these approaches *"conceptualised reputation as a signal, an amalgamation of*

collective perceptions, and a position in reputational rankings, respectively" (ibid., p. 18). With the aim to facilitate the measurement and practical implementation, the four dimensions identified by the authors are 'asset specificity' (reflecting the *"individual perception of distint stakeholder groups"*), 'asset accumulation' (referring to the *"degree of recognition and attention [focused to the organisation] among stakeholder groups"*), 'asset breadth of appeal' (signifying the *"degree of attractiveness"* or *"a generalised positive attitude"* towards the firm), and 'asset codification' (meaning the *"position of a firm in reputation rankings"*) (ibid., p. 18-19).

To illustrate the diversity and 'definitional confusion' of the existing interpretations, the latest systematic review carried out by Dowling (2016) analyses more than fifty mainstream definitions and categorises them based on their essence referring to (collective or individual) beliefs and evaluation, to signals about the organisation's features, or the entity's status. According to the exercise, the vast majority of definitions determines reputation in terms of collective beliefs and evaluations, while signal and status are the least commonly used reference points. The paper also highlights that apart from the heterogeneity of the interpretation of the concept, the discrepancy between the academic description and the aspects that are actually measured by empirical methods is also significant. In this line of thought, one of the main criticisms of the scholar towards approaches based on multi-stakeholder and/or multi-dimensional perspective is the doubt on how, if any way, the different reputations among stakeholder groups or assessed aspects can be aggregated to one, 'gestalt reputation' (ibid., p. 209). A new definition provided by Dowling aims to accommodate the key features of the previous definitions under scrutiny, as well as to overcome their shortcomings or inconsistencies, by concluding that *"corporate reputation is the admiration and respect a person holds of an organisation at a point in time"* (ibid., p. 218). The definition advocates generalised favourability rather than the feature of being recognised by something specific or having salience, and – according to the author – allows for flexibility to both individual evaluation and aggregation, through the specification of the group (or 'theory of the group') on which the research is focused.

As also captured by the referred definitions, it is of common understanding that, just as image, reputation is not static; it is rather dynamic over time and across

audiences. The above introduced approaches, in general, also imply that – unlike image – reputation cannot be directly influenced by communication. As highlighted by Bronn (2010, p. 310) by referring to the findings of Grunig and his colleagues, *"quality relationships and reputation result more from the behaviour of organisations than from messages disseminated*". Consequently, the way to achieve strong, positive reputation leads through a steady, favourable image and permanent, consistent behaviour.

Social judgements and reputation – capacity and character reputation

Although the literature of organisational reputation and impression management is very rich, relatively few scholars investigate the process through which reputational judgements are made and through which these assessments are adjusted in light of new information. In order to effectively manage and take advantage of the opportunities provided by a strong positive reputation, it is essential to have a clear understanding of the factors to which stakeholders allocate distinct attention and the way how reputation can serve as a proxy to fill in information gaps, caused by an asymmetric information environment, on the characteristics of the entity.

In this field, a recent proposition of Mishina, Block, and Mannor (2012) suggests that, while making assessment, stakeholders distinguish between the organisation's capabilities and its character, which results in two different types of reputation – capability and character reputation – with distinct features and functions. For one, capability reputation provides answer to the question what the organisation is able to do (i.e. it refers to abilities and resources), with the aim to judge the quality and performance of the entity. Meanwhile, character reputation reflects the question what the organisation would likely do, or in other words, what the actual goals of the entity and the respective behavioural patterns are.

According to the presented theoretical model, these two types of reputation contribute to reduce two respective uncertainties generally faced by organisations, namely, adverse selection and moral hazard. In a nutshell, as explained by the relevant economic theory (e.g. Arnott and Stiglitz (1998), Akerlof (1970)), the two problems arise from information asymmetry, either form the inability to directly observe the entity's – or its products' or services' – characteristics, or from the ambiguity regarding the entity's

true incentives and future behaviour. The key idea of the models is, that due to information asymmetry, both situations result in an abuse of the underinformed party and lead to distortions of the feedback system (price mechanism or judgment of the company).[2]

In the context of organisational character and stakeholders' assessment thereon, reputation may give guidance to stakeholders on reducing uncertainty and adjusting their expectations when they lack explicit information on the objective characteristics or expected behaviour of the entity. As reputation is one's accumulated impression on a firm's past actions and behaviour, it is an assessment that gets updated continuously and ideally, over time, converges to an accurate judgement on the organisation's abilities and true character.

Based on the conclusions of the relevant theoretical research reviewed, Mishina et al. (2012) point out that social judgements have two important features relevant in this situation. First, they are path-dependent – meaning, that prior beliefs have strong influence on stakeholders' expectations regarding the organisation's future behaviour as well as on the interpretation of actions. Second, that during the assessment, the weight attributed to potentially relevant information (so-called 'cues') depends on the attribute which the cue refers to (namely, if it relates to competence or behavioural patterns) and its direction (whether it is positive or a negative), implying also different techniques – such as active strategic cue generation and impression management strategies – to influence these assessments.[3]

Accordingly, based on the gathered empirical evidence, positive capability cues observed to be given more weight than negative ones, and they seem to have greater influence on entities with strong positive capability reputation, while negative capability

[2] This is the exact setup that gives rise to misleading practices applied by unethical firms – such as, for instance, greenwashing, a highly investigated research area related to reputation and legitimacy.

[3] The understanding of the above mechanism, i.e. how capability and character cues affect entities with different characteristics, also provides implications on how these cues can be influenced by the entity, which is duly derived in the referred study. Since the aim of the present paper is to underline the importance of reputation and legitimacy for financial supervisors, the theoretical and practical aspects related to their strategic management – despite being considered as important opportunity for the future extension of this work – are not covered currently.

cues have lesser influence on the assessment of the above entity, indicating that they are more resilient to negative capability shocks than those with weaker reputation.

Regarding character cues, the literature found that negative character cues tend to affect the entity's character reputation more significantly than positive ones, and that the entity's initial reputation also influences the impact these cues might have: entities with more favourable reputation for character not only benefit more from positive character cues, but are also more protected against negative ones than those with weaker reputation.

Section 2 – Reputation of financial supervisors

After the brief review of the key concepts related to organisational reputation of businesses and corporations, to accommodate the specificities of public sector entities and enable adequate analysis, due adaptation of the introduced definitions is required. This exercise – along with the collection of stylised facts, empirical results and discussion of sector-specific frameworks – is carried out in the following subsections.

Reputation in the public sector – specific aspects

The earlier reviewed definitions, although comprehensive and precise, are based on the corporate world's premises. As emphasised by Luoma-aho (2008), stakeholders of public entities do not have the opportunity to make a choice (unless some long-term, indirect influence via democratic decision making), implying that the relationship between public entities and their affected parties are different than those of corporates. This does not mean, however, that stakeholders do not form opinion and keep record on public entities. Despite this unique – and at some extent, inflexible – relationship, stakeholders' opinion on the competence, efficiency and trustworthiness of public entities is just as relevant as in case of private sector organisations.

The literature on public sector reputation tends to apply Carpenter's definition that refers to organisational reputation as *"a multifaceted concept that comprises a set of beliefs about an organisation's capacities, intentions, history, mission that is embedded in a network of multiple audiences"* (Carpenter & Krause, 2012, p. 27). In the definition provided by Gilad, Maor, and Bloom (2013, p. 3), that, in line with the

approach of Carpenter and Fombrun, defines this concept as *"audiences' associations between an organisation and distinctive traits, that is, a unique characteristic that differentiates an organisation from other similar entities",* the additional requirement of uniqueness can be identified. According to Carpenter, reputation uniqueness in the context of the public sector means that agencies are capable of creating solutions and provide exclusive services found nowhere else in the polity (ibid., p. 8). As a counterargument, Luoma-aho (2007) considers that public sector agencies are quite limited when it comes to uniqueness, as they are established by law to carry out a certain function of the state that, in most of the cases, lacks competition. This latter feature, however, might be partially challenged by opening the scope and involving public entities of other countries, supranational and international agencies (such as EU bodies or international organisations) in the analysis. Although they are not rivals in the classic sense, through the different practices and approaches applied, they might turn to potential benchmarks in terms of way of functioning and communication to the home public entity. In Europe, due to the aim of convergence of supervisory practises and the regular review exercises carried out by the relevant European Supervisory Authority, peer pressure is especially high on financial supervisors.

In the interpretation of Carpenter and Krause (2012), public sector reputation has four competing dimensions – performative, moral, procedural and technical reputation – among which the agency, according to its nature and mission, must prioritise. As a general rule, reputation in one dimension can be only enhanced at the expense of the others. Based on their roles in public administration, it can be argued that performative and procedural aspects are essential to financial supervisors in order to gain trust and prove independence while carrying out their mission. On the other hand, regulatory activity is closely linked to dealing with complex and sophisticated situations, which emphasises the importance of technical reputation. The requirements to protect the interest of 'clients' (or more precisely, that of citizens) and to set adequate rules, and treat supervised entities in a fair and proportionate way also underline the elements of moral reputation.[4] The authors also note that trade-off not only exists

[4] As it will be shown in Chapter 2, this aspect is also closely related to certain legitimacy concepts, such as 'procedural legitimacy', 'procedural justice' and 'procedural fairness'.

between the four different dimensions of reputation, but also between audiences: *"audiences are multiple and diverse, so satisfying one audience often means perturbing another"* (ibid., p. 27), which makes the exercise even more complicated.

Regarding the heterogeneity of audiences and their respective long-term evaluation on the organisation (i.e. reputation), Luoma-aho (2008) also emphasises that, as measured by Edelman's 'Trust Barometer', the duration of acquaintance and the intensity of interaction between the stakeholder and the organisation have a significant effect on the evaluation accuracy of the agency's performance. This, while assessing the reputation of the organisation, on the one hand, focuses the attention to those stakeholders that have longer contact with the entity, on the other hand, reinforces the need to diversify public relations strategy according to the various stakeholder groups. It is important to note, however, that unlike in case of private companies that are ranked yearly by various institutions specialised in the field (such as RepTrak), there is no standard methodology to measure public sector reputation.

Credibility and transparency – the pillars of reputation

Organisational transparency, in general, reflects the degree of openness of an entity as to share information on its functioning and internal procedures (Abolafia & Hatmaker, 2013). A more detailed definition was put forward by Grimmelikhuijsen and Meijer (2014, p. 139) stating that *"transparency is the availability of information about an organization or actor allowing external actors to monitor the internal workings or performance of that organization".* Bronn (2010) emphasises that being transparent and communicating transparency strengthens reputation as it builds confidence in the organisation (ibid., p. 314). In the same line of thought, Deephouse and Suchman (2008, p. 67) also underline that credibility and accountability are closely linked to trust, which has key importance from the perspective of both reputation and legitimacy.[5] Somewhat

[5] By referring to Luhmann, the study of Nyhan (2000) on trust in public sector organisations underlines that *"trust represents the level of confidence that one has in another to act in a fair, ethical, and predictable way" (ibid., p. 89).* Similarly, and also referred by the above scholar, Carnevale and Wechsler (1992) summarise their literature review with the conclusion that *"trust involves faith or confidence in the intentions or actions of a person or group, the expectation of ethical, fair, and nonthreatening behaviour, and concern for the rights of others in exchange relationships (…). Trust also involves a willingness to place oneself in some jeopardy, to risk vulnerability, to take the chance that one's dependency*

contradicting to the general consensus in the literature, Luoma-aho (2007) considers that public entities' room for managing reputation is constrained by transparency due to red tape and obligatory external reporting.

In the regulatory context, Lodge (2004) defines accountability as *"the obligation to account for regulatory (or any other type of) activities to another body or person",* while transparency *"is associated with prescribed standards of making regulation activities access- and assess-able"* (ibid., p. 127). The author distinguishes five dimensions of these concepts, such as the accountability and transparency of i) the decision-making process; ii) the rules to be followed; iii) the activities of regulated actors; iv) the regulating actors; and v) of the feedback process (ibid., p. 128). The scholar highlights that accountability and transparency cannot be interpreted in a 'the more, the better' manner, as the way how they are incorporated in the regulatory regime fundamentally affects both the desired and unintended consequences, therefore, the costs and benefits stemming thereof.

Transparency for public agencies can be also beneficial through its disciplining nature that serves as motivation to explore fair and efficient solutions and to promote the authority's achievement in terms of best practices. Furthermore, it is also an important aspect that is strongly linked to the accountability principle. Financial supervisors – in order to prevent political interference – shall be, by law, operationally and financially independent. The 'price' of independence is transparency and accountability that aim to ensure that the public entity complies, at its best effort, with its mandate. It shall be also noted that disclosure requirements in the private sector are already very strict, and, as a consequence of the financial crisis, they have become even more stringent worldwide, in light of which the difference in the 'transparency burden' of the two sectors are not that substantial any more.

As referred above, transparency also incentivises a certain regular self-reflection that provides opportunity to revise and enhance given functions. The higher degree, or voluntary transparency and openness, also contribute to get engaged in conversations with the industry, whose input is crucial for the adequate regulation of such a complex

will not be exploited" (ibid., p. 473). To note that some papers studying governmental organisations refer to trust as the synonym of credibility.

and technical field as financial markets. Similarly, van Riel and Fombrun (2007) also underline that openness and dissemination of information, in itself, is not a value. In order to become a value added, openness should comply with the requirements of sufficient detailedness, relevance and timeliness, accuracy and comparability.

A practical example reflecting openness is provided by the European Central Bank (ECB), that defines the requirement of transparency as "*providing all relevant information on strategy, assessments and policy decisions as well as procedures in an open, clear and timely manner to the general public and the markets"* (European Central Bank, 2018). In the ECB's vision, transparency is essential to ensure higher level public understanding of policy actions, which results in more credibility and effectiveness.

Based on empirical evidence, transparency – or the carefully chosen level and scope thereof – can also serve as a strategic communication tool. This was the aspect examined by Abolafia and Hatmaker (2013), by focusing on the strategic potential of transparency, who found that the effects of transparency on perceived trustworthiness varies among stakeholder groups. This indicates that public organisations should consider the diversity of their audience and differentiate their information strategy accordingly to achieve the best possible outcome.

Credibility – or, as referred in some papers studying governmental organisations, trust – can be defined as the general perception that the entity is capable and willing to achieve its policy mandate.[6] Just as reputation, credibility is also a reward gained over time and is strongly linked to economic agents' expectations on the supervisor's behaviour. According to Fombrun and van Riel (1997), apart from reliability, responsibility, and trustworthiness, credibility constitutes one of the four pillars of favourable reputation. The link between this concept and the earlier referred performance reputation, that also addresses questions related to the capability and competence of the agency ("*Can the agency do the job?"; "Can it execute charges on its*

[6] The current analysis does not reflect on the conceptual differences – if any – between credibility and trust, and does not introduce the concept of '*ethos'* (source credibility). It is of particular future research interest, however, to examine how these concepts relate to each other and to transparency, accountability, legitimacy, and ultimately, to reputation, in the specific context of financial supervisors.

responsibility in a manner that is interpreted as competent and perhaps efficient?" (Carpenter & Krause, 2012, p. 27)) is clearly recognisable.

In the literature of central banking communication, highly complex economic frameworks model the relation between monetary policy action, the respective communication of that action and the macroeconomic variables (known as the transmission channel). In this context, it was already shown by Blinder et al. (2008), Neves (2017), Kohn and Sack (2003), and Connolly and Kohler (2004), just to refer to a few, that central bank credibility can successfully anchor expectations of economic agents and reduce the costs of intervention.

Bronn (2010) also underlines that reputation is a resource that represents the beliefs that contribute to create trust, or the feeling of trustworthiness. But as highlighted by the author, "*trust, which reputation is about, is a result of observed and repeated trustworthy behaviour, not good messages*" (ibid., p. 318). In other words, although strategic communication has an essential role in influencing and managing the opinion and the expectations of stakeholders, it cannot stand alone, without due action.

The trinity of reputation, credibility, and the degree of attention given to the entity determines the level of stakeholder sensitivity. Messages sent by credible and renowned entities have higher probability to influence the expectations and the behaviour of the target groups in the direction that is favourable for the implementation of policies, resulting in reduced costs of intervention. Although high stakeholder sensitivity has clear advantages, especially in crisis situations, at the same time it can turn to a double-edged sword when reacting to regulatory or supervisory failure by amplifying the consequences of such events. This feature highlights the importance of strategic communication as well as the need for active stakeholder monitoring and management of public relations.

Benefits of reputation for financial supervisors

It is of common understanding among academics that corporate reputation provides competitive advantage to businesses through various forms (attracting applicants, customers and investors, permitting the application of premium prices, creating competitive barriers, among others (Kanto, de Run, & bin M Isa, 2016)).

Dowling (2016) concludes that *"corporate reputations are important because they facilitate economic transactions by providing incentives for organisations to behave in acceptable ways"* and that *"[they] are thought to operate in the markets for employees (…), costumers (…), and investors"* (ibid., p. 208), facilitating to attain and retain these stakeholders. The other reason that, according to Fombrun and van Riel, makes reputation a 'white knight' of companies is that "*the value of a corporate reputation is magnified during crisis"* (Sohn & Lariscy, 2012, p. 237), as it mitigates damages caused by troubled times.

Since financial supervisors do not sell either goods or services, or maximise profit, but carry out specific administrative functions of the state to achieve more abstract objectives – such as financial stability, orderly functioning of the market, or investor protection – significant part of the above referred advantages cannot be interpreted in the public sector. Among the remaining benefits, organisational stability and performance, employee loyalty and ease in recruitment, and reduction of transaction costs can be highlighted (Luoma-aho, 2008). Considering the research question put forward, namely, that strong reputation and legitimacy widens the room for manoeuvre of financial supervisors and ultimately, leads to the reduction of costs of implementation of regulatory changes and that of interventions, this latter aspect regarding the reduction of transaction costs has particular relevance in underpinning this hypothesis. It is of equal importance that in the time of crisis or critical issues, supervisors can also take advantage of the protective buffer of positive reputation to dampen the harmful effects of adverse situations.

It shall be also noted that, in the state's institutional context, reputation is also closely linked to legitimacy considerations. As underlined by Carpenter (2002), agencies can use their positive reputation to achieve *"delegated autonomy and discretion from politicians, to protect the agency from political attack, and to recruit and retain valued employees"* (as cited in Gilad, Maor, and Bloom (2013, p. 455)). In his later work, Carpenter adds that, apart from the distance and discretion granted by lawmakers, agency reputation may also influence its efficacy in enforcement of regulations (Carpenter (2010) as referred in Abolafia and Hatmaker (2013, p. 549)).

Based on the above referred benefits, it can be concluded that reputation is a valuable intangible asset for public entities, which therefore, shall be carefully and strategically managed (Abolafia & Hatmaker, 2013).

Stylised facts on agency reputation

To enhance the theory on the behaviour of public agencies, in their article dedicated to the analysis of empirical aspects of reputation in public administration, Carpenter and Krause (2012) collected stylised facts that are not sufficiently reflected in mainstream theories about these entities. Among the listed six features, the following three were deemed most relevant for the analysis of financial supervisors (ibid., p. 29.):

- *"Public agencies often treat as irreversible those decisions that can be reversed, legally or technologically."*

Case studies of warnings, public announcements and issuance of new rules analysed by the scholars show that regulators tend to apply these measures in an inflexible, one-way manner. Although consistency has merit in the building of reputation, the authors point out that "*there may be strong audience incentives for revising decisions*". In case of financial regulation, all three types of tools are actively used, therefore, insufficient flexibility is a potential threat to optimal reputation strategy.

- *"Public agencies engage in "contingent actions" as means of hedging against policy or technical uncertainty."*

Somewhat contradicting the first stylised fact, this observation refers to the tendency that supervisors prefer to 'keep their options open' in order to prevent path-dependent decision-making. This strategy aims to avoid commitments or predictions that can be falsified later and erode reputation or that can narrow down the space of future action.

The above introduced two phenomena can be interpreted as the dilemma between consistency and rigorous rule making *versus* the intention to avoid unnecessary limitation for potential future actions.

- *"Agencies have multiple audiences: therefore, satisfying some audience subset often means upsetting others or projecting ambiguity."*

From this latter stylised fact, Carpenter and Krause (2012) derive a very strict requirement for measures applied and communicated by public agencies, namely that *"the public administrator who serves multiple publics often must chart a course of action that is responsive to several of them at once; this may mean (…) speaking or presenting intentions in ways that refrain from (1) committing to a specific interpretation; (2) favouring one audience over another, (3) privileging or insulting one audience relative to another, or (4) committing forcibly to a future course of action"* (ibid., p. 29).[7] This observation and the resulting policy advice highlight the importance of stakeholder analysis and regulatory impact assessment, as well as the need for a comprehensive communication strategy, incorporated into the core decision making process.

Empirical research on public sector reputation

Empirical research on financial supervisors' reputation and its relation to strategic communication is rather concentrated on the investigation of monetary policy related aspects. As referred in the section on transparency, expectations channel – which is one of the mechanisms through which monetary policy takes its effect, in particular, by shaping forward-looking expectations of economic agents – is one of the key interests of studies in this area. Apart from formalised models measuring the efficiency of this mechanism (see references in the respective section), discourse analysis is also an effective tool to examine the effects of central bank communication. In this respect, the work of Abolafia and Hatmaker (2013) provides an outstanding example for the potential of this approach in the analysis of fine-tuning techniques aiming to *"influence immediate stakeholder behaviour as well as maintain longer-term agency reputation"* (ibid., p. 532). In their respective study, the authors examined the verbatim transcripts of closed meetings of the decision-making body of the Federal Reserve to identify signalling practices – such as strategic transparency and strategic misdirection – and demonstrate their consequences on the key variables. The exercise

[7] This aspect is closely related to the problematics of inconsistent expectations elaborated in Chapter 2, referring to multiple identities and legitimacy considerations.

also put distinct emphasis on the content and tone of public statements and the later published minutes. One of the main affirmations of the study is that *"signalling is not just about short-term engineering of stakeholder expectations. It is an assessment of the signal's long-term consequences for organisational image"* (ibid., p. 544). The article showed that, apart from its general interpretation as a desired feature in the organisation's functioning, transparency can be a sophisticated strategic tool to effectively influence the behaviour of economic agents.

On the other hand, analysis on the effects of regulatory talk other than those in the scope of monetary policy face with a serious limitation compared to the studies on the transmission channel, namely, that there is no measurable policy variable in which the effect of communication could be captured. Research, therefore, focuses more on the observable parts of regulatory communication and the patterns of strategies applied. In this respect, Maor, Gilad, and Bloom (2013) shall be referred, who examined how reputational considerations led to action or inaction in agency communication. Based on the case study of the Israeli Supervisor of Banks, the authors found that regulators tend to apply strategic silence in issues that affect functional areas in which the agency has strong reputation or which are secondary in terms of their main mandate, and react when the allegations concern areas where their reputation is weak or still evolving. In a somewhat similar exercise, observing the data obtained on the same entity, Gilad and Yogev (2012) investigated how regulators' concerns over their reputation affect their decisions and their respective communication. By analysing allegations concerning the adequacy of regulation, they found that the observed agency tended to acknowledge problems of underregulation "*because these carry higher threat to its reputation (…) (as it) directly challenges(s) an agency's reputation as guardian of the public's interest"* (ibid., p. 472). On the other hand, claims of overregulation are more probable to be denied by the agency, as they are not perceived as threats, but rather reinforcement that the agency acts in the protection of the public interest.

To explore the application of presentational strategies aiming to enhance reputation and legitimacy, Yeung (2009) carried out a comparative analysis on the communication strategy applied by the competition and consumer agencies of Australia and the United Kingdom (UK). The study revealed that both supervisors consider the

mass media as the primary channel of communication, also recognising, on the other hand, the potential threats stemming thereof, by being portrayed unfavourably. The study underlines the considerable importance of PR professionals in *"identifying and translating the agencies' actions into accessible set of messages which, it was hoped, would be picked up by journalists and transmitted as positive news coverage"* (ibid., p. 292).

As an example of financial market regulators, Black's (2004) and (2005) studies shall be highlighted, that examine the consequences of the introduction of the risk-based approach to financial regulation first, from a comparative, then from a UK perspective. The studies also touched upon important communicational aspects, such as the management of the gap in public's expectations regarding what the regulator should and could achieve in the new framework (i.e. to clarify that it is not possible to guarantee non-zero failure), with the aim to mitigate negative consequences for the established reputation of the agency. This aspect is also strongly related to legitimacy considerations amid inconsistent or contradictory expectations, which will be explored in Chapter 2.

Neutral reputation – an alternative theory

As shown above, although the field of public entity reputation is scarcely researched, most authors share the common understanding that entities of the public sector should pursue positive reputation that in turn, among others, serves as a buffer to dampen the effects of undesired events and ensure wider room for manoeuvre while managing these issues or crisis.

Luoma-aho (2007), however, suggests an alternative approach to accommodate public sector specificities and argues that, due to the elevated costs related to the maintenance of positive reputation and a promise of outstanding future functioning, public entities should target 'neutral', rather than excellent reputation. In her paper supported by empirical evidence on the Finnish administrative sector, the author identifies the optimal range around sufficient – neutral – good levels of reputation of a continuum scale and concludes that "*for public sector organizations the target level of reputation should be a realistic and healthy one, that is, it should be high enough for the*

organization to be trusted and taken seriously, but neutral or even low enough to acquire the necessary operating distance necessary especially in times of crisis" (ibid., p. 135).

Although credit is given to the author in the sense that reputation in the public sector have specific aspects that are not present in case of private sector organisation (or, the other way around, it lacks components that might be essential in the private world), theoretical models and empirical evidence clearly point towards the direction that strong positive reputation of public agencies have more benefits than risks or costs for the society, as whole. First and foremost, there are some conceptual concerns to be raised regarding the interpretation of neutral reputation. The values attributed to an esteemed public organisation – like transparency, credibility, consistency, competence, and openness – reflect such characteristics that would be difficult to imagine that stakeholders, especially those in regular and long-lasting contact with the entity, would judge, in any circumstances, neutral. Although different intensity in the positive or negative evaluation of the respective traits is adequate, setting neutral level of any of the above features does not seem plausible.

The point that emphasises the risky nature of high reputation – or 'the higher the rise, the bigger the fall' feature – raises an important aspect, namely, that of unrealistic expectations. As defined by Bronn (2010, p. 318), *"reputation risk is seen as the gap between what organisations communicate to external stakeholders and the behaviour they expect from the organisation".* Luoma-aho (2007) exemplifies the case of supervisors, towards whom "*the expectation to perform impeccably*" after all, remains unmet and *"result(s) in loss of credibility and bad reputation"* (ibid., p. 128). The best way to mitigate this risk, however, is not to keep expectations low, but rather in line with the quality of service provided by the organisation. As highlighted by Black in her fifth reflection to the introduction of risk-based financial regulation in the respective comparative case study, financial supervisors "*are attempting to make it clear to politicians and the wider public that [they] cannot do everything, and they should not be expected to*" (Black, 2004, p. 53). In her later work focusing on the financial supervisory paradigm change that took place in the UK, the author derives a more general conclusion, namely that *"it is important to recognise that non-zero failure is not a consequence of risk-based regulation per se, but of the problem of balancing competing*

priorities and limited resources. In practice, a non-zero failure policy is adopted by all regulators; it is just not one which is always consciously or openly articulated" (Black, 2005, p. 540). Similarly, based on the findings of Fombrun, Luoma-aho (2008, p. 449) also admits in her later work, that "*maintaining good reputation (…) is more vital for those organisations with intangible products as compared to those with more tangible outputs"*. In short, it is concluded that the trap referred as 'Midas touch' by the author can and shall be avoided with the clear and precise definition of what an entity is capable and allowed to do, and what those areas that fall beyond its reach or competence are.[8] Reputation is a promise and making a false or unsustainable promise is not a successful strategy. Indeed, setting the right expectations is a crucial part of reputation management – also referred by this author, in her later joint research on public relations and its connection with expectation management (Luoma-aho & Olkknen, 2014).

Regarding the costs of maintaining positive reputation, it seems plausible to assume that, with good practices in place, these continuous 'maintenance' costs shall be diminishing. In fact, the theory of positive reputation takes advantage exactly of this feature, namely, that the benefits of strong reputation result in a positive balance for the entity, especially at the time of crisis when it provides a buffer and wider room for issue and crisis management for the organisation. It shall be admitted, however, that the quality of certain supervisory functions may depend on the amount of available resources which – despite the financial and operational independence generally foreseen in the law – might become limiting factors in the time of austerity.

On the minimum required distance from supervised entities, the view that positive reputation of public entities would compromise independence or impartiality is rather groundless. In fact, supervisors traditionally are more accused by not interacting and engaging in dialogue sufficiently with supervised entities, than to get too close to them. As a very recent example, the interview of Lesetja Kganyago, the '2018's Governor of the Year' award-winner governor of the South African Reserve Bank can be cited, which highlights that "*it is time central bankers come down from their ivory towers in order to engage with the rest of society"* (King, 2018). Furthermore, the hypothesis

[8] This aspect will be also elaborated in Chapter 2, in the subsection on inconsistent expectations, multiple organisational entities, and legitimacy.

formed by the author implying that excellent reputation of public agencies could be a sign of corruption stands without further theoretical reasoning or empirical underpinning, which therefore is considered lacking validation.

In light of the above analysis, which adequately disproves the principal arguments presented by the alternative approach, the mainstream framework urging supervisors to seek strong and positive reputation is concluded to be more adequate, and therefore, it is maintained as the desired ideal.

Chapter 2 – Legitimacy

As phrased by Ashforth and Gibbs (1990), legitimacy *"justifies the organisation's role in the social system and helps attract resources and the continued support of constituents"*, which turns legitimacy itself a valuable – and desirable – resource for organisations (ibid., p. 177).[9]

Although the definitional landscape is far from being unanimous, the essence of the concept seems to centre around certain key elements, such as *'judgement and acceptance', 'perception'* and *'behavioural consequences'* (see Table 1 of Bitektine (2011)). Furthermore, as a consensual common ground, mainstream literature generally tends to depart from the definition provided by Schuman (1995, p. 574), that reads as follows: *"legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions".* As later emphasised by Deephouse and Suchman (2008), the legitimacy of an entity is *"socially constructed and emerges out of the subject's relation to other rules, laws, norms, values and cognitive frameworks in a larger social system"*, which can be *"quite subjective at times"* (ibid., p. 54).

To gain richer insight into the evolution of the concept and the main research directions on legitimacy, the present Chapter will provide a short overview on the principle approaches and theories of the related academic field following the logic and terminology suggested by Suddaby, Bitektine, and Haack (2017). Furthermore, due to

[9] To note that throughout the current paper, 'legitimacy' is understood as 'external legitimacy', conferred by external constituents or stakeholder groups.

its structured nature facilitating analysis, the systematic overview of Bitektine (2011) will be also briefly reviewed and duly applied to determine the key features of financial supervisors' legitimacy. By further narrowing the focus, the second part of the Chapter elaborates on public sector specific theories and aims to formulate hypotheses for the special case of financial supervisors.

Section 1 – Evolution of the theory

The thorough overview of Suddaby et al. (2017) distinguishes three streams of legitimacy theory, based on their approach on the essence constituting legitimacy, the respective ways of formation thereof, and the related research focus. As such, the main directions of the related research are classified as *'legitimacy-as-property', 'legitimacy-as-process',* and *'legitimacy-as-perception'*, briefly introduced in the following subsections.

Legitimacy-as-property

According to the theory of legitimacy-as-property, legitimacy can be interpreted from a material point of view. In this approach, legitimacy constitutes a 'property', an 'operational resource' (Schuman, 1995), an 'intangible asset' (Gardberg & Fombrun, 2006) or a 'capacity' that is a product of the organisation and its external environment.

It is of common understanding of authors sharing this theory that legitimacy – just as an asset – can be acquired, accumulated, maintained, lost or restored; and an organisation may gain legitimacy "*from its audiences through the adoption of legitimate structures, practices and symbols*" (Suddaby et al., 2017, p. 12).

By applying a contingency based view, the theory suggests that "*legitimacy is understood to occur through a degree of fit between the legitimacy object (…) and its environmental context*", putting the focus on exploring "*how organisations create and maintain congruence between internal structural characteristic and external environmental pressure"* (Suddaby et al., 2017, p. 16). Based on the referred paper's main findings, congruence is claimed to be attained through the following three main organisational strategies: 'isomorphism' or 'adaptation to fit', which refers to the practice of seeking compliance with socially approved norms, standards or good

practices that, as a consequence, leads to elevated resemblance in a given industry; 'decoupling', which aims to achieve fit to more than one audience; and 'performing', which exploits technical superiority and innovation to gain or reinforce legitimacy.

Since scholars' primary interest in this stream is to provide an accurate description of the characteristics and dynamics of the production and formation of legitimacy, creation of typologies is an important element of the theory. The roots of categorisation stretch back to Weber's (1968) renowned legitimacy types of authorities, namely the 'traditional', 'charismatic' and 'rational-legal' legitimacy, with the respective keywords of 'endurance', 'public trust' and 'logic'.

As underlined by Deephouse and Suchman (2008), most of the categorisation attempts are in line with the driving forces foreseen by Meyer and Rowan already in '70s, namely, that legitimacy can result from *"'rational effectiveness' (later termed pragmatic legitimacy); 'legal mandates' (regulatory or socio-political legitimacy); and 'collectively valued purposes, means, goals, etc.' (normative or moral legitimacy)*" (ibid., p. 50). The most commonly referred typologies are that of Aldrich and Fiol (1994), distinguishing between 'socio-political' and 'cognitive' legitimacy, that of Scott (1985), differentiating a 'cognitive', 'regulative', and 'normative' dimension, and that of Schuman (1995, p. 571) dividing legitimacy into 'pragmatic', 'moral', and 'cognitive' categories, based on audience self-interest, normative approval, and comprehensibility and 'taken-for-grantedness', respectively. The theoretical model suggested by Scherer, Palazzo, and Seidl (2013) advocates that to achieve congruence in these three legitimacy dimensions, three distinct legitimacy strategies – 'strategic manipulation', 'isomorphic adaptation', and 'moral reasoning' – are applied by entities, that can be distinguished by the degree of influence the entity has over the prevailing social expectations ('active influence', 'passive acceptance', and 'mutual influence', respectively).

The legitimacy-as-property theory also suggests that, although legitimacy might not be observable, it can be measured by well-designed proxy variables. The most widespread techniques are the indicators of 'population density', which are based on the sum of the good practices or successful organisational forms that lead to higher degree of legitimacy, those of 'media accounts', focusing on the prevalence of such good practices and successful organisation forms in the news, and 'regulators' authorisation',

harnessing the fact that regulators have the authority to ensure compliance with legally established requirements for a certain sector, therefore, their decisions are indicative for the legitimacy of the entities under their scrutiny.

Although the academic research aiming to explore the different aspects of legitimacy provided valuable contribution to the research field, the proliferation of categories that often overlap with previous concepts or the different interpretations of already established terms severely dampened the benefits of this approach. In relation to this aspect, as gathered by the review of Suddaby et al. (2017), critiques are also identified regarding the multidimensional nature of legitimacy, namely, that the number of potential attributes that define the concept are infinite, causing problems with its empirical investigation, which can only focus on a narrow set of attributes. Another often criticised aspect of the model, that ultimately led to the emergence of the legitimacy-as-process theory is that, despite the intuitive explanation of seeking congruence with the environments' expectations, the interacting elements of the model are considered stable.

Legitimacy-as-process

The legitimacy-as-process theory resolves the above referred shortcoming of the legitimacy-as-property stream by considering the interaction of the entity with its environment an ongoing process, including the changes of characters and variety of actors. According to this theory, legitimacy – or as rather used in the relevant literature, 'legitimation' – is an interactive process of social construction, involving multiple participants. As such, it is not stable in its nature, but it changes dynamically according to the state of interaction and the changes of the actors involved. Since the research focus of legitimacy-as-process theory is the process itself that generates legitimacy, scholars following this approach also investigate the opposite perspective, namely, the process when the formerly acquired legitimacy of an entity is destroyed ('de-legitimation') or when it even reaches the state of 'socially constructed illegitimacy' or stigma.

As a result of their analytic literature review, Suddaby et al. (2017) identify three key processes by which legitimation occurs according to the relevant theories:

'persuasion / translation / narration' (i.e. *"a process of collective meaning-making that occurs through language"*; ibid., p. 27); 'theorisation' (*"process by which existing norms and practices are abstracted into generalised specification or categories"*; ibid., p. 30); and 'identification / categorization' (i.e. the paradox of the *"ongoing need to be both different and the same simultaneously"*; ibid., p. 31).

The studies of the first group focus on the 'collective meaning-making' that takes place through language and communication, leading to preferred methods such as discourse, rhetoric and media analysis. Research questions of 'theorisation' are investigating ways of turning new practices, innovations or organisational forms to be considered legitimate, and ultimately, taken for granted. As emphasised by the study, one of the typical ways to initiate change in the legitimacy landscape is 'problematisation', which is the de-legitimisation of a practice while simultaneously offering a valid – legitimate – solution for the situation.

The third sub-stream on identification is marked by the 'uniqueness paradox' introduced by Martin, Feldman, Hatch, and Sitkin (1983), that inspired several studies researching organisational behaviour. In the field of legitimacy and reputation research, the paradox relies in the conflict of two simultaneous goals ('being similar' *versus* 'being different'), which are supposed to be achieved by the same instruments, through organisational identity and culture.[10] The underlying logic behind this contradiction, as phrased by King and Whetten (2008), is that organisations seek to be *"similar enough to an established reference group to be seen as legitimate, while also differentiating themselves form their competitors"* (ibid., p. 193). Or, as phrased by Pedersen and Dobbin (2006, p. 897), from the opposite perspective, *"formation of identity through uniqueness and construction of legitimacy through uniformity are two sides of the same coin"*. In the following, an individual section will be dedicated to the new insight provided by King and Whetten (2008), that makes a considerable attempt to resolve the

[10] To note that in the original paper, Martin et al. (1983) define the paradox in terms of uniqueness claims that, as their analysis shows, share common elements with many other, similar stories aiming to express uniqueness. As the authors summarise the essence of the phenomena, *"[t]hus, a culture's claim to uniqueness is expressed through cultural manifestations that are not in fact unique"* (ibid., p. 439). From the point of view of legitimacy and reputation, the paradox lies rather in the duality of isomorphism compelled by legitimacy and the uniqueness called by reputation, which both shall be achieved through the same means, namely, organisational identity.

referred paradox by rethinking the relationship between reputation and legitimacy, signifying critical importance for the current study.

As demonstrated by the thorough literature review of Suddaby and colleagues, the research interest of the wide range of theoretical and empirical studies analysing the process of legitimisation centres around the behaviour and strategy of the agency that seeks legitimacy. This concentrated focus also highlights one of the main shortcomings of this theory, namely, that the role and actual mechanism through which contextual factors influence the processes of legitimisation remains unexplored. As also pointed out by Bitektine (2011) and Hoefer and Green Jr (2016), the other important flaw of the approach is the rigid division between skilled and potent 'actors' and the necessarily reactive, passively perceiving 'audience'. The main criticism, however, which enables to relate legitimacy to reputation, as phrased by Ashforth and Gibbs (1990), is that the legitimacy-as-process approach fails to recognise that *"[legitimacy] – like beauty, resides in the eyes of the beholder"* (ibid., p. 177). Combining this feature with the socio-cognitive aspects of legitimacy, the stream of legitimacy-as-perception theory unfolds, whose short description is provided in the next sub-section.

Legitimacy-as-perception

The third stream of legitimacy research, legitimacy-as-perception, on the one hand, maintains the key elements of the other two streams – such as the metaphor of a special kind of property and the importance of interaction and dynamic approach – but applies a fundamentally different point of view, namely, that it puts the emphasis on the process of the construction of individual's judgements that results in an overall evaluation – or a macro-level validation – on the legitimacy of the organisation. In this framework, Zimmerman and Zeitz (2002), for instance, define legitimacy *"as a social judgment of acceptance, appropriateness, and/or desirability"* (ibid., p. 416), which also implies that the constituents of legitimacy are the organisation's stakeholders, therefore, the entity's relationship therewith has crucial importance.

The fundamentals of the theory are built at the micro level, as its key actors are individuals who, based on the perceptions they have on the entity, form judgements on the legitimacy thereof, which, at the end of the process, culminate to a macro-level

effect (Bitektine & Haack, 2015). As explained by the referred authors, by applying a multi-level perspective, this approach avoids unilateral focus on either one or the other level, and – in principle – succeeds to link processes of individual judgement formation with the dynamic sense-making process of collective actors. As an example for conciliating theories focusing on the micro level and institutional drivers of change, the theoretical framework developed by Tost (2011) can be referred, that analyses the underlying (micro-level) legitimacy judgments nested in a three-dimension model that explains how these judgments develop and change, and culminate at the institutional level.

Considering the multilevel nature of the theory, investigation in the field can be divided along the micro and macro line. Among the micro-foundations, techniques of cognitive psychology and micro-sociology can be identified in the relevant literature, while the research focusing on the motives and influencing factors of micro decisions have distinct importance in the optimisation of impression management and communication strategies. As referred by Suddaby et al. (2017), another wing of this research area deals with the questions related to the management of stakeholders' perception and expectations, especially in preventing negative legitimacy spillovers, others examining the visibility of the entity under evaluation and the impacts of attention paid thereto.

The important value added of this approach compared to the previously introduced streams is that it enables the diversity of evaluators and that of judgements, leading to complex processes and relationships between the actors. The underlying concepts on which the approach is based are "*perceptions [generated] of the legitimacy object, individual's propriety judgements, collective validity judgement, and individual's validity beliefs about what the collective validity judgement is"* (Suddaby et al., 2017, p. 51). Given its similarity with the latest approach towards reputation reviewed in the previous Chapter, this stream will be further explored along the present paper.

However, despite the existence of some reference works inspired by economic theory and political psychology, according to the findings of the literature review, the second stage of the model – the transformation of micro decisions to macro level effects seems to be a somewhat unexplored area. This observation leads to the main critique

that is pronounced towards this approach, namely, the over-reliance on micro-foundations and the lesser importance given to the transformation of these micro judgements to the macro-level.

To briefly sum up the main characteristics of the discussed three streams of legitimacy theory, including the representative publications of the respective fields, a structured overview is provided in Table 2.

Section 2 – Legitimacy of financial supervisors

When analysing legitimacy in the public authority context, it is important to refer to the classic typology introduced by Weber (1968), distinguishing between 'traditional authority', which is based on the respect of values; 'charismatic authority', which is based on the dedication to the authority's character and action; and 'rational bureaucratic authority', related to the legitimacy of rule- and decision-making. Weber's main proposition, that also underlines the relevance of the current analysis, is that, despite public authorities' legitimacy is provided by law, it is only one of the many aspects that may justify the relevant social arrangements.

According to this line of thought, the present section provides a short analysis on financial supervisors' legitimacy, following the ordering criteria set by Bitektine (2011), and a brief overview on two distinct frameworks – the psychological perspective and the theory of multiple organisational entities – specifically designed to shed more light on the determining features of public authorities' legitimacy.

Bitektine's systematic review for legitimacy concepts

As already referred in the previous section, the definition and the classification of legitimacy is less than consensual and led to several different, many times overlapping categories. On this chaotic universe, Bitektine (2011) provides another comprehensive overview to structure the milieu of the legitimacy concepts used in the literature. For ordering criteria, the scholar suggests the following five questions, against which the particular case of financial supervisors will be also evaluated in the forthcoming (ibid., p. 154):

1. *'Evaluating audience': "Who is (are) the evaluating actor(s) / audience(s)?"*
2. *'Features / dimensions of the organisation': "What features of the organisation are evaluated?"*
3. *'Analytical processing': "How are the perceived features of the organisation cognitively processed by evaluators?"*
4. *'Concentration of benefits': "How diffuse / concentrated is the benefit that actors associate with the organisation structure, practice or institution in question?"*
5. *'Mechanism of compliance': "Through which mechanism is the organisation's compliance achieved?"*

Regarding the evaluating audience, the literature review identified that the two most researched categories are legitimacy achieved at a public rule-setting entity of a given area ('legitimacy with regulators'), and that at the media ('media legitimacy'). The scholar emphasises that, apart from its legitimating character, as pointed out by Hybels (1995), the media also fulfils an important monitoring role by reporting illegitimate activities and provides a forum for debate to shape – formal and social – norms in place.

This aspect closely relates to the analysis carried out by Deephouse and Suchman (2008) on the sources of legitimacy, where the authors refer that the two most typical types of legitimacy 'gatekeepers' are specific legitimacy granting authorities (i.e. state institutions), and those with *"collective authority over what is acceptable"* (ibid., p. 55), in its widest sense, society-at-large. Similarly to the above referred, the authors underline the special role of the media, as a source of legitimacy, contemplating an actor with dual nature, as it both serves as an indicator for society-at-large approval, while enjoys certain authority to influence legitimacy of other organisations. The scholars also refer to the emerging importance of a third source, namely, that of 'interorganisational relations'. This aspect, as an important channel to gain additional legitimacy through their connections with similar, internationally recognised, leading entities, has particular relevance for public authorities. This tendency, including the creation of – general scope and specialised – supranational entities in the financial sector gained strong impetus

after the outbreak of the severe international financial distress of the late '90s, as well as after the most recent, 2008 economic crisis (Helleiner & Pagliari, 2009).

Based on the above categorisation, it can be affirmed that regulators constitute a source of legitimacy by the force of law, and have substantial influence on the legitimacy of organisations active in the sector that they regulate. Licencing, certifications, warnings and sanctions issued to and against an organisation serve as indicators to estimate legitimacy obtained from these entities (Bitektine, 2011, p. 156). Considering the special role of the media, as the gatekeeper on the other end of the hypothetical legitimacy source scale, the relationship of financial regulators therewith has critical importance from both the point of view of the management of their own legitimacy, as well as from that of the transmission of the fundamental legitimacy principles applicable towards the entities subject to their supervision.

Based on the features or characteristics of the organisation that serve as a base for legitimacy judgements, following Schuman's (1995) traditional classification, aspects of 'procedural legitimacy' (reflecting on the 'soundness of the organisations procedures'), 'consequential legitimacy (focusing on the consequences triggered by the organisations activity), 'structural legitimacy' and finally, 'personal legitimacy' (linked to the 'charisma' of the entity's leader) can be distinguished.[11] In line with the analysis of Deephouse and Suchman (2008), Bitektine (2011) also refers to a recent, additional form of legitimacy, namely, to 'linkage legitimacy', when the organisation tries to take advantage of close relationships built with highly legitimate entities.

Although with different weight, all these categories are relevant for financial supervisors. As it will be shown by the psychological perspective elaborated by Tyler (2006) and briefly introduced in the forthcoming section, procedural legitimacy – or the *'fairness of procedure'* – has pivotal role in the legitimacy of public entities, strongly impacting the degree of cooperation and voluntary deference of citizens.

[11] To note that personal legitimacy – and reputation – are closely linked to Aristotle's 'ethos', that *"concerns the character of the speaker, particularly his or her trustworthiness"* (Wæraas & Ihlen, 2009, p. 88). The three base strategies to strengthen ethos, '*phronesis'* (practical wisdom) – demonstration of intelligence and competence –, '*arête'* (virtue) – demonstration of moral character, prudence and justice – and '*euonia'* (goodwill) – showing the audience that their needs and expectations are taken into due account – have key importance in establishing trust and credibility, prerequisites of legitimacy and reputation.

Furthermore, due to the critical importance of credibility and trust in the authority-individual relationship, consequential and personal legitimacy also signify priority areas for financial supervisors.

Regarding the phase of analytical processing, the distinction based on the 'type of judgement' introduced by Aldrich and Fiol (1994) seems to be one of the most influential works in the literature. Accordingly, in their framework, 'cognitive legitimacy judgements' are based on recognisable organisational characteristics, that enables the association of the entity to an already known organisational from. Respective judgements on the organisation's legitimacy are formed based on the relevant standards of that particular group. On the contrary, 'socio-political legitimacy judgement' evaluates the features of an organisation against the prevailing social norms – or, as phrased by Scott, *"widely held beliefs and taken-for-granted assumptions"* (Bitektine, 2011, p. 157) –, and concludes if the overall features of the entity are acceptable or not. One of the main implications of this distinction is that, while cognitive legitimacy allows to overcome overwhelming scrutiny of the external audience, socio-political legitimacy constitutes strong normative evaluation, which, in case of favourable judgement, confers important benefits to the entity, such as enhanced organisational survival and means to achieve organisational goals (Deephouse & Suchman, 2008, p. 59).

For financial supervisors, cognitive legitimacy – the determination of the organisational category to which the agency belongs to – is granted by the force of the constituting law. Nevertheless, just as any other organisation, they are equally exposed to socio-political legitimacy judgements. Considering the potential advantages resulting from a favourable evaluation, financial regulators have strong interest to focus their attention to this legitimacy aspect.

In terms of the concentration of benefits stemming from the existence and the activity carried out by the organisation, the literature distinguishes 'diffuse' and 'concentrated' benefits. In case of financial supervisors, the gains related to their mandate is widespread and are relevant not only for investors (who perceive those directly), but for the society, as a whole. According to the findings of (Schuman, 1995),

this also implies that financial regulators can – and shall aim to – obtain high degree of moral legitimacy.

Finally, from the compliance's point of view, in line with Scott's already referred framework, the literature defines two base forms of legitimacy: 'normative' or 'regulative'. While financial regulators are those who determine the requirements for regulative compliance, their exposure to normative conformity – just as referred above related to the socio-political judgments – is significant and shall have critical importance in the management of their legitimacy considerations.

The psychological perspective of authority legitimacy

Considering the scope of the research question of the present paper, it is essential to refer to the theoretic overview of Tom R. Tyler published in 2006, on the psychological perspectives of legitimacy and legitimation of authorities (Tyler, 2006). In his view, *"legitimacy is a psychological property of an authority, institution or social arrangement that leads those connected to it to believe that it is appropriate, proper, and just"* (ibid., p. 375). According to his approach, being legitimate is vital for authorities to succeed, as influencing the behaviour by relying only on power is neither effective, nor sufficient. The key idea in this model is that legitimacy – or demonstrating competence to the resolution of the public's problems – generates voluntary compliance to decisions and rules and leads to a sense of obligation and personal responsibility, which contributes to enhance the efficiency of the authority, especially, in times of scarcity, crisis or conflict. In other words, legitimacy creates a belief that the authority's decisions and rules are valid and shall be obeyed to, simply because they were created by that particular entity.

By citing Ford and Johnson (1998), and French and Raven (1959), the paper stipulates that legitimacy is a genuine value added that, apart from its core measures, such as sanctions and positive or negative incentives, allows authorities to influence the behaviour of those related to the entity through an additional channel (Tyler, 2006, p. 377). One of the many benefits of this phenomena is that authorities that are considered legitimate do not need to justify their actions on a case by case basis

but benefit from a certain 'general approval' of stakeholders, that enables them to effectively resolve conflict situations or focus on long-term policy issues.

In his earlier study published in 1997, Tyler elaborates in detail on the psychology of legitimacy by providing a comparative theoretical overview of resource-based and relational theories. The analysis is completed by empirical tests that support the existence of a strong relational component of legitimacy, leading to voluntary deference to authorities (Tyler, 1997). According to this approach, legitimacy is linked to people's concerns about their social identity – namely, the way *how* they are considered, talked to and treated by the authority. The three most relevant concerns in this context identified in the literature are the 'neutrality of authorities', the 'trustworthiness of the authority's motives', and 'status recognition' (defined by the referred study as the 'interpersonal respect' (ibid., p. 336)), also validated by the findings of Tyler's (1997) empirical analysis. The key message underlined by the scholar is that group members' assessment on an authority is not primarily or solely depends on the authorities' performance, but also on the treatment of members by the authority. The empirical results of Tyler's model investigating the key attributes and qualities that enhance deference show that, according to the instrumental approach, the two most important characteristics that an authority shall have is 'competence' and the 'ability to resolve problems', while the relational model suggest that people are more concerned about 'integrity' and 'caring'.

The conclusion of the paper is that, if people believe that the authority's intentions are right, its decision-making is neutral, and the authority treats the members of the society with respect and dignity, people feel more willing to cooperate and voluntarily defer to the authority. The study also underlines the importance of trust that emphasises a permanent aspect of the judgement of character, namely, that *"judgements about current intentions allow people to predict the future, because intentions develop from a person's character"* (ibid., p. 336). This conclusion shows high resemblance with reputation, which also extrapolates expectations regarding the future behaviour of an entity based on past perceptions and experiences (Deephouse & Suchman, 2008). These findings also have important implications for the relevance of social relations of the authority's leaders and the related groups, or that of

public relations, to influence the perceived socio-political legitimacy and efficiency of the authority.

Building upon these results, the key element of the model presented in the 2006 paper is that during the legitimisation process, people internalise the social norms and values to their personal motivational system, which becomes inherent part of the individuals' own values that guide their behaviour. This ultimately leads to voluntary deference and self-regulation, as *"the influence motivated by legitimacy develops from within the person who is being influenced"* (Tyler, 2006, p. 378). Accordingly, in line with other scholars in the field, Tyler concludes that agencies are seen more legitimate and people are more willing to comply with legal authorities when their procedures and decisions considered to be carried out in a fair way ('procedural justice'). Indeed, based on the results of other recent research reviewed in the study, "*fairness of procedure through which institutions and authorities exercise authority*" seem to be the key aspect of legitimacy that appear to be *"a robust and widespread [finding] (…) in legal, political and managerial settings*" (Tyler, 2006, p. 382).

It is important to note, however, that procedural justice is not the only way for an entity to gain legitimacy. Referring to the rational aspect of Weber's approach, rational decisions reflecting neutrality and factuality, or the force of law, in itself, can also provide legitimacy to entities. Furthermore, Jackson and his colleagues found that, apart from the situations when they are feeling being obliged to, citizens are willing to accept authorities' – in the concrete case, the police's – right to define appropriate behaviour *"when they believe that the institution acts according to a shared moral purpose with citizens"* (Jackson, et al., 2012, p. 1051). Also supporting the above hypothesis, empirical studies concerning court decisions, or those investigating political perspectives reached the same conclusion, namely, that legitimacy enhances support, leads to loyalty and, similarly to reputation, provides entities a certain buffer, or as termed by Weatherford, a 'reservoir of support', which is most valuable in times of threat or crisis.

To sum up, the above findings point towards the hypothesis that public authorities' legitimacy has a strong relational component and that *"authorities benefit from social connections with the groups they represent"* (Tyler, 1997, p. 326). Legitimacy

– through voluntary deference and trust – contributes, on the one hand, to efficiency and, on the other, provides authorities with the flexibility to confront in conflicting situations and to pursue long-term policy aims – meaning, larger room for manoeuvre, as expressed in the initial hypothesis.

Multiple organisational entities and legitimacy

Although the present paper does not intend to explore in detail either the literature of multiple organisational entities or the effective communication strategies to manage legitimacy or reputation, due to the particular relevance of its findings, the case study of Sillince and Brown (2009) on the rhetoric of the English and Welsh police's websites shall be referred.

The authors argue that ambiguous communication is a useful tool to manage legitimacy amid inconsistent or contradictory expectations of the various stakeholder groups. Ambiguity in this context means that 'vague enough' communication leaves room for different readings and associations, depending on the preference and concerns of the target groups. As pointed out by the scholars, *"competing identity claims helped constabularies to associate themselves with different aims that satisfied the different pragmatic, moral and cognitive dimensions of legitimacy"* (ibid., p. 1847).

Indeed, as Ashforth and Gibbs (1990) refer to Shocker and Sethi's conclusion, legitimacy is in general a problematic issue, since *"[s]ocial values and expectations are often contradictory, evolving, and difficult to operationalise"* (ibid., p. 177). According to the findings of the scholars, the degree of complexity of an organisation's legitimacy ('problematic legitimacy') implies greater scrutiny of constituents, and also less tolerance regarding the deviations from their respective expectations. This characteristic is especially valid for an *"organisation espousing a moral mission or high levels of trust"* (ibid., p. 191) – just as the police or financial supervisors. On the other hand, the authors also warn that, although the adequate response to problematic legitimacy is demonstrating efforts to gain and maintain it, excessive promotion thereof may be also apparent and even suspicious to stakeholders, who in turn, would not give credit to these efforts. This contradiction was termed by the authors as the 'double edge' nature of legitimacy, or regarded as the 'self-promoter's paradox' by Jones and

Pittman (1982, p. 241). This also implies that, implicit – indirect and more subtle forms of – communication and strong reputation are critical to maintain credibility and to successfully avoid this situation.

The referred analysis of the police's online communication identified three major contradicting identity claims regarding effectiveness (*"we are effective / ineffective"*), belonging to the community *("we are part of / apart from the community*") and progressivity (*"we are / are not progressive"*).

In case of financial supervisors, these issues are also potential sources for inconsistent expectations or complex, in certain aspects, contradictory stances. The detected duality in effectiveness can be linked to the recently more widely applied supervisory policy approach, the already referred 'non-zero failure' policy. Since it is impossible to continuously monitor each and every entity's activity, financial supervisors in general apply a risk-based approach while determining supervisory priorities. As explained earlier, this approach implicitly suggests that it is not feasible to expect or guarantee zero risk failure in the whole financial system.

In order to comply with their mission, supervisors shall demonstrate sufficient efficiency to ensure adequate scrutiny to maintain financial stability. Meanwhile, as other public entities, they often struggle with resource problems, especially in light of the growing dimension and sophistication of financial markets. Apart from the limitations in terms of budgetary considerations and headcount, financial innovations pose new competence and qualification requirements for supervisory staff. Amid the digital age and growing globalisation, financial markets getting more and more interconnected, complex and dynamic. To keep the pace with such innovations as FinTech or virtual currencies, supervisors need to acquire new skills and up-to-date knowledge to maintain efficiency.

This latter aspect further leads to the question of claimed and the lack of progressivity. While the article emphasises the moral considerations (treating people fairly and equitably), in case of public entities, (lack of) progress can be interpreted in a wider sense, such as keeping the pace with the already mentioned technological advancements or the inclusion of modern corporate values that are already inherently present in the private sector. Despite continuous modernising efforts, public

administration generally lags behind in these fields. While in order to gain or maintain legitimacy it is important to emphasise and demonstrate with evidence that progressivity is a key value for supervisors, it is also important to clarify that, to evaluate and properly supervise market innovations, financial supervisors need time to prepare and adapt.

The aspect of belonging to or being apart from a community is captured in the general underlying mission of financial supervisors. In case of central banks, this is typically safeguarding financial stability and ensuring price stability, while securities market supervisors' primary objective is to act in the pursuit of investor protection. The common element is that both missions focus on the contribution to the 'social good'. On the other hand, supervisory policy and new – or delayed, or overwhelming – regulation may generate costs to investors in the short run, which seemingly and temporarily contradicts the referred missions.

Chapter 3 – Reputation, legitimacy, status

While based on the previously reviewed definitions and the determining underlying elements thereof the similarities between reputation and legitimacy seem apparent, important distinguishing features can be also identified. In order to gain clear understanding on the distinct role of these two concepts in an organisation's life, the present Chapter identifies areas of overlap, that of interaction, and of inherent differences. It will be shown that, however the two concepts share a common root, namely, organisational entity and culture, while legitimacy serves to relate the entity to a certain group (replying to the question of '*who is this actor similar to?'*), reputation is about distinguishing the entity, based on a unique feature, from the others (addressing the question of *'how is this actor different?*'). The analysis is completed by the introduction of the concept of status, whose relationship with reputation and legitimacy is also explored and consistently framed in the model provided by Deephouse and Suchman (2008), also enriched with the findings on the interrelation of these notions by Bitektine (2011). Finally, by exploring the non-mainstream approach of King and Whetten (2008) suggesting complementary relation between reputation and legitimacy, the Chapter provides further evidence on how strong reputation and legitimacy can

contribute to the widening of the room for manoeuvre and reduction of costs of intervention for financial supervisory or regulatory actions.

Section 1 – Comparative analysis

Common features

Reputation, legitimacy and status – as distinct forms of social judgement – deserved significant attention from academics since the '90s, and according to the findings of the intense research interest, have been deemed as *"critically important for organisations"* (Bitektine, 2011, p. 160).

Based on the analysis of the previous chapters, the essence of reputation can be captured by stakeholders' perceptions and experience on the organisations past actions, which also enables the anticipation of a likely future behaviour. Legitimacy, on the other hand, focuses on the classification of organisations to a certain organisational form defined by certain recognisable features (cognitive legitimacy) or to the comparison of these features with respective benchmarks of social norms (socio-political legitimacy). Lastly, as defined by Bitektine (2011) status judgements *"capture differences in the actors' social rank that generate privilege or discrimination"* (ibid., p. 163).

As emphasised by Deephouse and Suchman (2008), the three concepts *"share many antecedents, consequences, measures and processes"* (ibid., p. 60) and all focus on aspects related to the organisational culture. Concerning reputation and legitimacy, Deephouse abd Carter (2005) highlight three important common features, namely, that i) they result from stakeholder evaluation and judgement; ii) they can be linked to similar characteristics of the organisation (general and social performance; compliance with norms and social expectations; mission and alliances); and finally, iii) both enable advantages in the acquisition of resources and benefits for the entity. As further underlined by Bitektine (2011), both reputation and legitimacy are multidimensional constructs, comprising dimensions that can be relevant for social judgements made thereon, leading to positive correlation in the operationalisation of the two concepts. Similarly, status judgements are also based on multiple dimensions, referring to a degree of social acceptance and a particular 'critical value' regarding the features under scrutiny. As per status, Deephouse and Suchman (2008) further refer that notions such

as ‘prominence’ and ‘prestige’ – categories generally linked to legitimacy – can easily be related to status, and ‘track record’, ‘visibility’, ‘reliance’ are typical keywords for reputation – also relevant in the ranking of otherwise similar entities.

Interestingly, regarding the relationship between visibility and the strain to comply with pressures put on the institution (with particular emphasis on disclosure), Marquis and Toffel (2012) found conflicting evidence in the literature. While certain results suggest that greater visibility implies higher legitimacy concerns, others argue that prominent and powerful entities’ exposure to key stakeholders’ pressure is less intense, therefore, they enjoy more flexibility in how and at what extent they comply with external pressure. To reconcile these contradictory findings, the study introduces two distinct visibility concepts. Accordingly, high ‘generic visibility’ is attributed to entities with *“high reputation, status and prominence that make the firm more widely known in society”* (ibid., p. 3). ‘Domain-specific visibility’, on the other hand, stems from specific characteristics of the organisation, *“that may expose the firm to a greater degree of institutional pressures related to that particular domain”* (ibid., p. 3). The authors argue that this latter type of visibility promotes higher institutional conformity and deters selective disclosure more effectively than general visibility. Taking into account the complex and highly technical mandate of financial supervisors, it is plausible to assume that their domain-specific visibility is more pronounced, therefore, just as shown in case of reputation, the pressure to compliance and appropriate disclosure – or in other words, the requirement for transparency – is substantial.

Distinguishing features

Although reputation, legitimacy, and status share some apparent similarities and mechanisms of construction giving rise to substantial – and often misleading – conceptual overlap in the relevant literature, careful analysis can shed light on the underlying differences and relations that are fundamental to the correct interpretation of these concepts.

To capture the essence of these differences from the evaluator’s point of view, Bitektine (2011) phrases four questions that address the core of these notions. To form a judgement on the aspect of cognitive legitimacy, actors shall assess if the organisation

belongs to an already existing category of entities, whose characteristics and level of acceptance is already known. Socio-political legitimacy, on the other hand, requires judgement on the conformity of the organisation with the expectations of society regarding the values and behaviour of the entity. For the determination of status, it shall be analysed where the organisation stands in the ranked order of similar entities. Finally, judgements on reputation are formed in the form of future expectations on the entity's behaviour, based on past perceptions and experience.

Apart from the above referred concise form of tackling the core aspects of the reviewed forms of social evaluations, Deephouse and Suchman (2008) provide a comprehensive comparison of the distinguishing features thereof, organised in Table 3. Besides the aspects captured by the approach of the concepts, the analysis emphasises the difference in scale of measurement (which is dichotomous in case of legitimacy – i.e. the entity is either legitimate or not –, continuous in case of reputation, and ordinary or categorical for status); the presence of rivalry (legitimacy being non-rival, reputation being fundamentally rival, and status featuring group-rivalry); and the nature of consequences (homogenisation for legitimacy, differentiating for reputation and segregation for status).

Section 2 – Relational analysis

The legitimacy-reputation-status triangle

For the visual representation of the potential interconnectedness between reputation, legitimacy, and status, Deephouse and Suchman (2008) suggest the triangle demonstrated in Figure 2. At each corner, the authors reflect the most inherent, and distinct characteristics of the concepts, such as 'conformity to social guidelines' for legitimacy, 'achievement and self-representation' for reputation, and 'ascription and group mobility' for status. Along the edges of the triangle, the most prevalent effects and influences are indicated, among which, from the current research question's point of view, the relevant nexus are between legitimacy and reputation.

As highlighted in the analysis, legitimacy positively influences reputation as "*legitimate actors are often both more visible and more credible in their self-representations*" (ibid., p. 66). As referred in the relevant section of Chapter 1,

credibility – defined as the general perception that the entity is capable and willing to achieve its policy mandate – is also considered as one of the four pillars of reputation by Fombrun. In the approach of Deephouse and Suchman (2008), credibility and visibility are consequences of legitimacy that result in stronger reputation. On the other hand, positive reputation, through the endorsement of sources of legitimation, also contributes to strengthen the basis of legitimacy.

The influence of reputation on status is a quite clear connection, since the higher the organisation's reputation is, it most probably leads to higher hypothetical ranking (hence, higher status) in the relevant reference groups. On the other hand, higher status, as the authors argue, also leads to higher returns on past achievements, thus, to stronger reputation. Finally, the relationship between status and legitimacy is somewhat similar to the previously described mechanism between status and reputation: legitimacy assumes compliance with standards that could serve as a base to make part of a particular status-group, while belonging to a high-status group could provide a potential legitimacy buffer in case of minor violations. The authors warn, however, that, at the same time, higher status also increases the penalty in legitimacy for breaches.

In order to capture the cumulative effects and importance of these three characteristics to an entity, the authors introduce the composite concept of 'prestige', which they define as *"the organisation's capacity to achieve objectives by virtue of enjoying a favourable social evaluation"* (Deephouse & Suchman, 2008, p. 66).[12]

Reputation, as the extension of legitimacy: an integrative model

After gaining clear understanding on the similarities and differences between legitimacy and reputation, this section, based on the integrative model of King and Whetten (2008), explores the possibility to reconcile the apparent conflict between the very purposes of these two concepts, namely, the urge to be similar and different at the same time. The suggested theory also aims to contradict the predominant conventional

[12] Although the paper provides an exact mathematical formula to express prestige as a dependent variable in relation to the other three referred aspects, since no background intuition is provided for the application of multiplication and summing applied therein, this formula cannot be deemed sufficiently underpinned. Nevertheless, the verbal argumentation on the prerequisite, but not absolute nature of legitimacy for prestige, providing base for the organisation to *"enunciate claims based on both status and reputation"* (Deephouse & Suchman, 2008, p. 66) is considered adequate and suitable.

thinking that holds that *"legitimacy is a requirement of all organizations, whereas reputation is a desirable, but not essential property*" (ibid., p. 192). By providing a new theoretical framework, and by applying the perspective of identity theory, the authors show that reputation and legitimacy are not opposing to each other, but rather have a "*complementary, reciprocal and interdependent relation*" (ibid., p. 193).

The key idea of the model is that, since both concepts are linked to institutionalised social standards and assessment, reputation can be interpreted as the extension of legitimacy, which is enabled by the particular social identity adopted by the organisation. Based on Whetten's revisited identity concept, which specifies organisational identity "*as the central and enduring attributes of an organization that distinguish it from another organisations (…) signifying an organization's self-determined (and "self-defining") unique social space and its unique pattern of binging commitments*" (Whetten, 2006, p. 220), the authors argue that during this identification process, organisations select the social category in which they intend to belong and through this preference, get linked to those stakeholders that will make judgement on their legitimacy and reputation.

The proposed framework of King and Whetten (2008) takes advantage from this revisited organisational identity concept, stating that, while determining their identity, entities shall reply to both questions: to whom they are similar to, and how they are different from others. In order to gain a better insight to this self-definition process, the scholars use the model of Brewer and Gardner as inspiration, that differentiates between three discrete levels of identity: the 'social identity' referring to group membership, the 'relational identity' concerning interpersonal relations, and the 'individuating identity', that encapsulates the personal characteristics and traits. As illustrated in Figure 3, the levels are nested in hierarchical order, meaning that the higher-order identities reflecting wider categories constrain the selection of the lower-order, sub-category related identities.

By applying these categories to the organisational identity, the model includes a second dimension in the framework and combines the above categories with the criteria set by accountability standards. In their conceptualisation, minimum requirements convey the standards to belong to a certain social group (featured by sanctions and

threats of closing out), while high-level accountability standards define the characteristics that positively individuate entities in the given group (resulting in the 'reward of esteem' (ibid., p. 198)). At the two extremes of the scale – denoting the minimum and the maximum – the concepts of legitimacy and reputation can be discovered, signifying that *"reputation can be viewed as the extension of legitimacy and that the two perceptions are connected through the organisation's adoption of particular social identities*" (ibid., p. 193).

According to the authors, the relationship of legitimacy and reputation, apart from being complementary, is also reciprocal, as "*legitimacy standards inform organisations' reputation-seeking activities and reputation-seeking activities, in turn, shape the minimum standards of what it means to belong to a particular category"* (ibid., p. 201). This statement implies two important consequences: first, that ideal standards and consequently, organisational strategies aiming to distinguish the entity (reputation criteria), shall be consistent with the minimum (legitimacy) standards; and second, that the minimum criteria can be adjusted (typically, elevated) in light of the prevailing ideal standards, indicating that the previously successful differentiation strategies may become ineffective.

Although the authors do not refer to this aspect, considering the context of the narrower subject of the research question of the present paper, the importance of external shocks, as a force that can strongly impact both minimum and ideal standards, shall be also emphasised. Applying the above theory to financial supervisors, the financial crisis outburst in 2008 was clearly a focus event that strongly impacted the minimum requirements and the concept of ideal prototype of these entities. Empirical results in the agenda-setting literature in the European context demonstrate that the crisis implied harsh consequences in the content of the agenda, in the approach applied in the policy process, and even in the formal institutional structure ('polity'), including the distribution of power between the EU entities and Members States. By applying a historical perspective, Helleiner and Pagliari (2009) explore the impacts of the 2008 crisis on the international regulation of financial markets, accentuating the change of the role of the European Union from an earlier regulation-taker to leading regulation-maker (ibid., p. 15). Additionally, Posner and Véron (2010) argue that the financial crisis

triggered the alteration of the policy objective, from financial integration to integrated financial regulation, which also brought significant changes in the institutional infrastructure and policy approach. The ambition to strengthen the EU entities, apply stricter and more inclusive regulations as well as to centralise more the regulatory and supervisory powers at the EU level initiated at the break of the crisis are still ongoing. Considering the above introduced model, it is plausible to assume that the crisis itself, as well as these institutional changes had significant effects on social judgements and respective thresholds aiming to assess the legitimacy, reputation, and status of the individual financial supervisors.

Conclusion

The current paper aimed to demonstrate the importance of reputation and legitimacy for financial supervisors and test the hypothesis that strong positive reputation and legitimacy bring valuable benefits to authorities by widening the room for manoeuvre and lead to the reduction of implementing costs of regulatory changes or that of interventions.

Summary of the evidence gathered

The first chapter of the paper provided a theoretical overview of the main aspects related to reputation, its relationship with organisational identity and image, revealing the difference between the perspectives how the organisation wants to be seen (‘intended image), how it believes it is seen (‘construed image’), and how it is actually seen by its stakeholders (´reputation’).

The literature review showed that positive reputation, by representing the beliefs that contribute to create trust, is unquestionably considered as a valuable resource for entities and that it is more the result of repeated trustworthy behaviour than good messages. It was found to be beneficial by bringing organisational stability and performance, employee loyalty, and ease in recruitment. It was also demonstrated that, although there is consensus on some features of reputation – such as that it is established over time, reflects a more enduring evaluation of stakeholders, and that it relates to a certain attractiveness – reputation is a rather complex, multi-dimensional concept.

The framework on social judgements – with the introduction of two distinct categories of reputation and the importance of cues – provided further evidence on the complexity and importance of reputation. It was shown that reputation helps to mitigate the negative consequences of information asymmetry by operating as proxy to fill in data gaps and enabling stakeholders to make more robust assessments. It also served as an example to demonstrate that entities with different level and nature of reputation can benefit from, or being exposed to, different assessments that influence the overall judgement made on the organisation’s character.

By narrowing the focus to public entities, sector-specific considerations, stylised facts, and empirical results were reviewed, and the particular interpretation of uniqueness and the different competing dimensions of agency reputation were briefly presented. The gathered stylised facts pointed towards a certain duality in agency behaviour affecting reputation. On the one hand, it seems that insufficient flexibility to revise previous actions represents potential threat to the optimal reputation strategy, while on the other hand, agencies tend to prevent path-dependent decision-making by leaving their options open. Furthermore, the presence of multiple audiences that oftentimes bear contradicting expectations from the entity poses challenges and trade-offs for agencies seeking positive reputation. Apart from the benefits identified in the private sector, reputation was also found to contribute to the reduction of transaction costs, and to facilitate the establishment and retention of political independence. As essential pillars, the importance of salience, credibility, trust, and transparency was equally referred, and the alternative theory on the optimality of neutral reputation was also analysed.

By turning to the other key concept of the paper, Chapter 2 provided a brief overview on the development and main streams of legitimacy theories, including a systematic review of legitimacy concepts, enabling the analysis of the special case of financial supervisors. The combination of this exercise with the relevant findings of sector-specific frameworks allowed to gain valuable insight into the most prominent aspects related to the legitimacy of these entities, leading to some pertinent conclusions.

It was shown that financial regulators, empowered by constituting laws of the polity, are important ‘gatekeepers’ and sources of legitimacy nested in the democratic order. In line with their mission expressed in terms of the social good determined by the law, the positive effects of their adequate functioning are widespread. This characteristic can also be associated – by construction – with the opportunity and requirement to obtain high degree of moral legitimacy.

On the other hand, despite their legitimacy-granting role ensured by the force of law, financial supervisors are also exposed to socio-political assessment – or the requirement of normative conformity –, therefore, they shall also seek acceptance from

other legitimacy-granting sources. In this respect, the media has dual role: apart from providing a channel to financial regulators to manage their own legitimacy, it can also serve as an important platform for the transmission of the legitimacy criteria – both positive and negative – applied by regulators towards the entities subject to their supervision. With the intensifying globalisation and technological financial innovations, the relevance of interorganisational relations and their effects on legitimacy is also increasing. Concerning the assessment made by society-at-large, due to the overwhelmingly trust-based relationship between individuals and authorities, it was concluded that procedural, consequential and personal legitimacy has distinct importance for financial regulators. Furthermore, based on the psychological approach of legitimacy formation, procedural legitimacy – or *'*fairness of procedure*'* – was deemed essential to positively influence the attitude of individuals towards the authority, strongly affecting the degree of cooperation, voluntary deference, and ultimately, the efficiency of the agency.

As highlighted by the stylised facts, the high degree of complexity of an organisation's legitimacy – especially in case of entities pursuing moral mission and dependent on high levels of trust – implies greater scrutiny of stakeholders, and also less tolerance regarding the deviations from their expectations. Although enhanced demonstration of compliance with legitimacy requirements is an adequate answer, organisations shall be aware to avoid raising suspicion by excessive efforts – or the so-called 'double-edge nature' of legitimacy –, in which strong reputation was found to be of critical importance. Furthermore, as already referred in the context of reputation, due to their complex mandate and specific characteristics, financial supervisors often face with inconsistent expectations which might be effectively fulfilled by the application of contradicting identity claims.

Finally, in Chapter 3, two analyses – a comparative and a relational one – were carried out to shed light on the distinct, but interrelated functions of reputation and legitimacy. Although both are considered as special forms of social judgement, and strongly related to organisational culture and identity, while legitimacy emphasises similarity and serves to relate the entity to a certain group, reputation is about distinguishing the entity and expressing uniqueness.

Despite their clear differences, the integrative approach aims to incorporate these concepts in a common framework, and argues that reputation, legitimacy (and status) are highly interrelated concepts, that not only influence, but also rely on each other. As advocated by the model, legitimacy can be interpreted as a minimum requirement of socio-political approval – related to concepts such as 'procedural fairness', 'credibility', and 'trust' –, while positive reputation – linked to concepts such as 'transparency', and also 'credibility', and 'trust' – can be considered as the ideal standards posed towards the organisation. The path from shared features linked to minimum requirements (i.e. legitimacy) to unique traits reflecting ideal standards (i.e. reputation) is led through the different identities of the organisation, implying that reputation can be viewed as the extension of legitimacy.

Conclusion on the plausibility of the research hypothesis

Against this background, it can be concluded that reputation and legitimacy are valuable intangible assets for public agencies, that, yet, remain without due recognition among practitioners and adequate interest from academics. As observed by Luoma-aho (2008, p. 448), *"(t)he importance of reputation is only lately been understood by public sector organisations and national legislators, and still remains a much underused resource"*.

Building strong socio-political legitimacy and steady positive reputation require robust and coherent organisational culture and consistency in the entity's behaviour over time, and through its various operational fields. To approximate this ideal state, considerable investment shall be made both in the management and in the communicational functions, which conventionally are of secondary importance for public entities with bureaucratic nature and oftentimes scarce financial resources. Although, as part of the accountability framework, financial supervisors are subject to a certain level of mandatory transparency that enhances both legitimacy and reputation, the application of more sophisticated communication tools aiming to manage agency legitimacy and reputation would also require a more strategic and overarching approach, which currently seems to be reserved for higher prominence central banks.

On the other hand, despite sharing the main aspects of theoretical foundations, given the specificities of the public sector, and in particular, those of financial supervisors, the common techniques used in the corporate world cannot be automatically implemented. Establishing widely-acknowledged socio-political legitimacy and reputational uniqueness is a real challenge for agencies that are not only required to manage the respective relationships with their own stakeholders, but oftentimes are also under political pressure while carrying out their activities.

Both from theoretical and practical point of view, the lack of observable economic variable as policy instrument significantly restricts the attempts to measure or even to adequately prove the benefits stemming from positive reputation and legitimacy. While the psychological approach of institutional legitimacy provides valuable contribution to explain the gains of voluntary compliance, empirical studies based on surveys are severely constrained by the limited prominence of financial supervisors and the obvious conflicts of interest of supervised entities when it comes to the evaluation of supervisory and regulatory performance. In this respect, the application of the above theories in the field of monetary policy are much more promising and rewarding.

Notwithstanding the practical difficulties and limitations identified above, the formerly gathered theories, stylised facts, and empirical evidence seem sufficient to conclude on the plausibility of the hypothesis under scrutiny, namely, that strong positive reputation and legitimacy bring valuable benefits to financial supervisors. The opportunity provided by legitimacy and reputation through a higher level of credibility, recognition, and trust granted by the members of the society translates into enhanced, voluntary deference and higher acceptance of the authority's decisions, which lead to the widening of the room for manoeuvre. This, in normal times, can be captured by the reduction of implementing costs of regulatory changes or that of interventions, by the prospect to pursue long-term aims instead of focusing on confrontations in the present, and, due to the protective buffer nature of legitimacy and reputation, by the more efficient and effective issues and crisis management in turbulent times.

Consequently, by weighing the identified benefits and potentials offered by legitimacy and reputation, there is not much doubt left that the direction for financial supervisors to evolve and better serve the public interest is towards more openness and credibility, thus, stronger legitimacy and reputation.

Future research directions

Organised around the assessment of the above referred research hypothesis, the paper proved that – such as common understanding in the corporate world – legitimacy and reputation are sophisticated resources attributing important benefits to the organisation, which shall not be left unexploited by financial supervisors either.

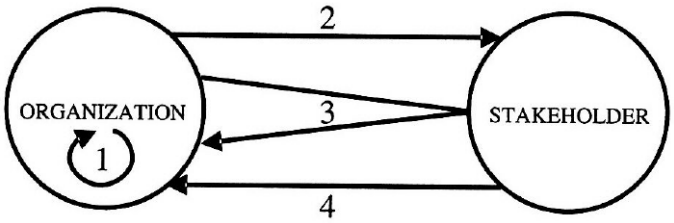
Since the current analysis focused solely on demonstrating and proving the importance of reputation and legitimacy to financial supervisors, there is still substantial room left for further future investigation. Although brief references were made to certain practical and strategic aspects, implications on institutional communication were not intended to be covered in the investigation. Accordingly, as a targeted, systematised review and analysis, the current paper offers suitable base for more ambitious – theoretical and empirical – research on the use of these tools and related optimal strategies that would enable financial supervisors to achieve the desired degree of legitimacy and reputation, in order to take advantage of their full potentials while serving the public interest.

Considering the substantial differences present in the institutional setup into which financial supervisors are embedded, the area also represents fertile ground both for comparative analyses and applied case studies. The interplay of legitimacy and reputation with related fields of interest – such as the specificities of the relationship with the media, that between supervisors and supervised entities, the role and influence of financial supervisors in the polity and on agenda-setting, or specific areas of reputation, like concerns over social responsibility or sustainability – also offers promising opportunities for future investigations.

Annex – Figures and tables

Figure 1 Key organizational viewpoints

(Brown, Dacin, Pratt, & Whetten, 2006, p. 100)



1 "Who are we as an organization?"
2 "What does the organization want others to think about the organization?"
3 "What does the organization believe others think of the organization?"
4 "What do stakeholders actually think of the organization?"

Table 1 Overview of legitimacy definitions

(Bitektine, 2011, p. 153)

Definition	Definition Scope	References
"Appraisal of action in terms of shared or common values in the context of the involvement of the action in the social system"	Judgment	Parsons (1960: 175)
Justification of organization's "right to exist"	Judgment	Maurer (1971: 361)
Implied congruence with the cultural environment, with "the norms of acceptable behavior in the larger social system"	Judgment and behavioral consequences (acceptance)	Dowling & Pfeffer (1975: 122)
Activities that are accepted and expected within a context are then said to be *legitimate* within that context	Behavioral consequences (acceptance)	Pfeffer (1981: 4)
Array of established cultural accounts that "provide explanations for existence"	Judgment	Meyer & Scott (1983: 201)
"Social fitness"	Judgment	Oliver (1991: 160)
A generalized perception of organizational actions as "desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions"	Perception and judgment	Suchman (1995: 574)
"The endorsement of an organization by social actors"	Behavioral consequences (endorsement)	Deephouse (1996: 1025)
"Acceptance of the organization by its environment"	Behavioral consequences (acceptance)	Kostova & Zaheer (1999: 64)
"The level of social acceptability bestowed upon a set of activities or actors"	Judgment and behavioral consequences (acceptance)	Washington & Zajac (2005: 284)
"The degree to which broader publics view a company's activities as socially acceptable and desirable because its practices comply with industry norms and broader societal expectations"	Perception and judgment	Rindova, Pollock, & Hayward (2006: 55)
"A social judgment of appropriateness, acceptance, and/or desirability"	Judgment	Zimmerman & Zeitz (2002: 416)

Table 2 Summary of the three streams of legitimacy research

(Suddaby, Bitektine, & Haack, 2017, p. 61)

	Property	**Process**	**Perception**
What is Legitimacy	▪ A property ▪ A resource ▪ An asset ▪ A capacity ▪ A thing	▪ An interactive process of social construction	▪ A social judgment ▪ An evaluation ▪ A sociocognitive construction
Where does legitimacy occur?	▪ Between the legitimacy object (e.g. an organization) and its external environment ▪ Mostly at the organization and field levels	▪ Between multiple social actors, particularly those seeking or opposing change ▪ Mostly at the field level, also at organization (group) levels	▪ Between individual and collective evaluators (groups, organizations, society) ▪ Multi-level, but leaning towards the micro
How does legitimacy occur?	▪ *Contingency view*: Through "fit" between attributes of an organization and external audiences' expectations	▪ *Agency view:* Through purposive efforts of change agents and other social actors	▪ *Judgment view:* Through perceptions, judgments and actions of individuals under the influence of collective-level institutionalized judgments
Representative publications	Dowling & Pfeffer, 1975 Pfeffer & Salancik, 1978 Singh, Tucker & House (1986) Suchman (1995) Ruef & Scott, 1998 Zimmerman & Zeitz, 2002	Barron (1998) Rao (2004) Suddaby & Greenwood (2005) Barnett (2006) Golant & Sillince (2007) Johnson, Dowd, & Ridgeway, 2006 Sine, David, & Mitsuhashi, 2007	Walker, Thomas, & Zelditch (1986) Elsbach (1994) Tyler (2006) Bitektine (2011), Tost (2011), Bitektine & Haack, (2015) Zelditch (2001) Lamin & Zaheer (2012)

Table 3 Distinguishing characteristics of legitimacy, reputation, and status

(based on Deephouse and Suchman (2008))

	LEGITIMACY	REPUTATION	STATUS
DEFINITION	*Socially constructed, judged against rules, laws, values*	*Explicit extrapolation of past to future behaviour*	*Reflects the relative position of an entity*
SCALE	*Dichotomous*	*Continuous*	*Ordinal and categorical*
RIVALRY	*Non-rival*	*Rival*	*Group-rival*
EFFECT	*Homogenising*	*Differentiating*	*Segregating*
ATTACHED TO	*All entities that share a given form*	*Individual actors*	*Self-aware cliques / status groups*
FUNDAMENTAL NATURE	*Political*	*Economic*	*Honorific*

Figure 2 The interrelation of legitimacy, reputation and status

(Deephouse & Suchman, 2008, p. 66)

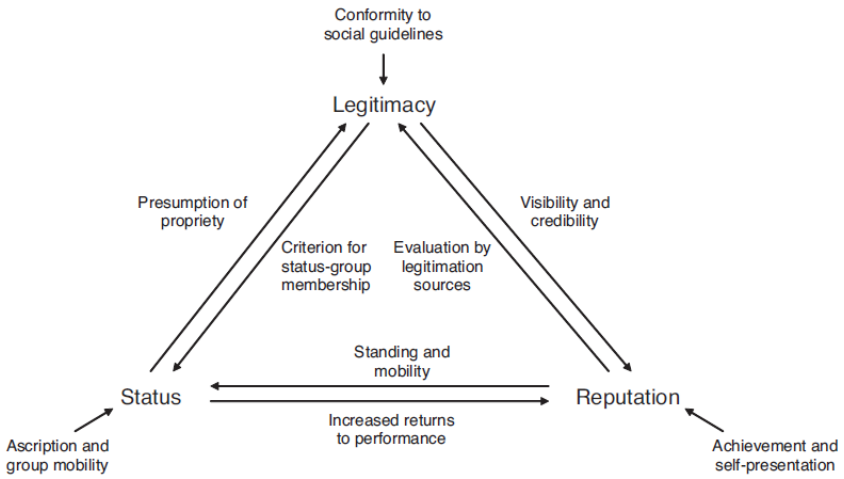
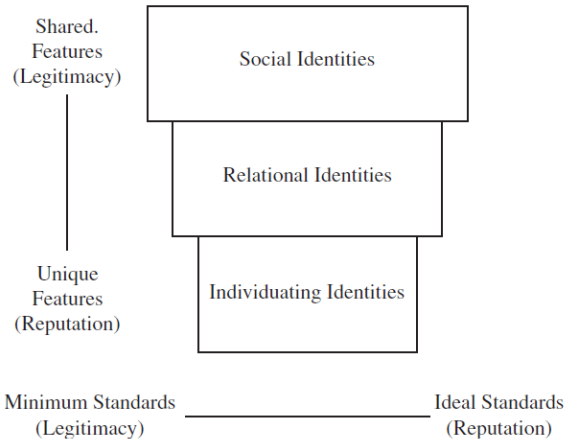


Figure 3 Hierarchically ordered identity referents and corresponding relations to legitimacy and reputation (King & Whetten, 2008, p. 198)



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