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THE PATH DEPENDENCE OF ORGANIZATIONAL REPUTATION: HOW SOCIAL JUDGMENT INFLUENCES ASSESSMENTS OF CAPABILITY AND CHARACTER

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Drawing upon theory on social judgments and impression formation from social psychology, this paper explores the socio-cognitive processes that shape the formation of favorable and unfavorable organizational reputations. Specifically, we suggest that stakeholders make distinctions between an organization's capabilities and its character. We explain the nature and function of each and articulate the manner in which judgment heuristics and biases manifest in the development of capability and character reputations. In doing so, this research explores both the positive and negative sides of organizational reputation by examining the manner in which different types of reputations are built or damaged, and how these processes influence the ability of managers to enhance and protect these reputations. Copyright © 2011 John Wiley & Sons, Ltd.

INTRODUCTION

In the past two decades, there has been considerable scholarly interest in the topic of firm reputation (e.g., Fombrun and Shanley, 1990; Rindova *et al*., 2005; Weigelt and Camerer, 1988). This research has significantly expanded our understanding of what constitutes an organizational reputation and the host of benefits that may result from enjoying a favorable reputation (e.g., Fombrun and Shanley, 1990; Rindova, Petkova, and Kotha, 2007; Rindova *et al*., 2005). However, we still know relatively little about how stakeholders make these reputational judgments about an organization or how such judgments might be adjusted in light of new information. Specifically, scholars are just beginning to examine these socio-cognitive processes—the social judgments through which stakeholders translate information about an organization into a particular reputation (Love and Kraatz, 2009). Given the impact of heuristics and biases on the judgments and decision making of both individuals (e.g., Tversky and Kahneman, 1974) and organizations (e.g., Carpenter, Pollock and Leary, 2003; Mishina *et al*., 2010), it stands to reason that these biases may also shape the manner in which organizational reputations form and change.

Examining the socio-cognitive processes involved in the formation and revision of organizational reputations is important for at least three reasons. First, in the absence of perfect information about a firm's characteristics and future behavior, stakeholders use its reputations as a proxy in order to make decisions. However, there can often be gaps between a firm's reputation and its objective characteristics. We can begin to uncover when and how these gaps may occur and persist by delineating why evaluators focus, and place greater

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credence, on certain cues[1] while ignoring or downplaying others. Second, this approach can provide unique insights into how firms can better build and manage their reputations. Finally, delving into these socio-cognitive processes allows us to distinguish between the two primary types of reputations stakeholders use, and assess the benefits and detriments that each can create in a particular situation.

This paper draws upon social judgment and impression formation theories from social psychology to explore the socio-cognitive processes that shape the formation of organizational reputations. In so doing, we not only contribute to the literature on organizational reputation but also follow a recent trend and explore the microfoundations of strategic management concepts (e.g., Ethiraj *et al*., 2005; Felin and Foss, 2005; Teece, 2007). We unpack what has been referred to as the favorability (Rindova *et al*., 2007) or the perceived quality (e.g., Rindova *et al*., 2005) aspect of organizational reputation. We focus specifically on the favorability aspect because much organizational research on reputations has been concerned with the organizational consequences of favorability. We suggest that stakeholders make distinctions between the favorability of an organization's capabilities (i.e., capability reputation) and its character (i.e., character reputation), explain the nature and function of each, and articulate the manner in which social judgment processes manifest in the development of each type of reputation. We then develop testable propositions regarding the manner in which the two types of reputations are built or damaged, how managers can enhance or protect their firm's reputations, and then discuss the theoretical and practical implications of our theorizing.

TWO TYPES OF REPUTATIONS

Organizational reputation is defined as the collective, stakeholder group-specific assessment regarding an organization's capability to create value based on its characteristics and qualities (e.g., Rindova *et al*., 2005; Rindova *et al*., 2007). Reputation, developed through both direct and vicarious observation of organizational characteristics, actions, and outcomes (Deephouse and Suchman, 2008; Fombrun, 1996; Fombrun and Shanley, 1990), is used as a cognitive shorthand by stakeholder groups to make inferences about organizations when more specific information is either unavailable or too costly to obtain (e.g., Fombrun and Shanley, 1990; Weigelt and Camerer, 1988). Reputations serve an important function by helping stakeholders gauge the probable outcomes of interacting with a particular organization (for reviews see, e.g., Stiglitz, 2000; Weigelt and Camerer, 1988). We restrict our theorizing to stakeholder-specific evaluations because organizations may have very different reputations with respect to different stakeholder groups (Carter and Deephouse, 1999). We make the assumption, however, that individual members of a stakeholder group (e.g., consumers of a particular organization) notice similar types of cues, react in a similar manner toward those cues, and hence arrive at a similar conclusion.

Stakeholders make two primary types of reputational assessments when evaluating a target organization: what the organization *can* do (i.e., its abilities and resources) and what the organization *would likely* do (i.e., its goals and behavioral intentions). These two types of reputational assessments have been consistently shown to be the two fundamental dimensions of social perception and judgment in social psychological research, regardless of whether the target of the evaluation is an individual, a group, or even a nation (e.g., Abele and Wojciszke, 2007; Fiske *et al*., 2002; Judd *et al*., 2005; Wojciszke, 1994). Although a variety of labels have been used to refer to these dimensions, we will refer to them as organizational capability and character reputations in this manuscript. The first, capability reputations, are collective evaluations about the quality and performance characteristics of a particular firm (e.g., Milgrom and Roberts, 1986; Shapiro, 1982, 1983; Spence, 1974). The second, character reputations, are collective judgments regarding a firm's incentive structures and behavioral tendencies based on observations of its prior actions (e.g., Kreps and Wilson, 1982; Milgrom and Roberts, 1982; Rosenthal, 1981). It is important to note that character reputations are not simply about incentive structures, but rather about the imputation that stakeholder groups make about the target organization's goals, preferences, and organizational values

[1] A cue is defined as something that is considered by the evaluator to be *potentially* informative, which may include direct and vicarious observations of organizational actions, reactions, statements, characteristics, and outcomes. What constitutes a cue is beyond the scope of this paper, but is likely to be both stakeholder-specific and dependent on existing assessments.

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(e.g., Love and Kraatz, 2009). These imputations, in turn, are used by stakeholders to make behavioral predictions and determine whether the target organization's goals and values are congruent with their own.

Capability and character reputations enable stakeholders to better deal with the two fundamental uncertainties they face in their interactions with an organization. The first type of uncertainty is that which stems from the inability to directly observe the characteristics (e.g., quality or capability) of the firm or its products before entering into any type of exchange. This includes what the economics literature refers to as adverse selection (e.g., Stiglitz, 2000) or a 'lemons' problem (Akerlof, 1970), whereby there is potential for overpaying for that product or service. In more competitive interactions, a lack of information about a rival's capabilities can lead to underestimation or overestimation of an opponent's competitive capabilities (see also, e.g., Chen, 1996; Chen, Su, and Tsai, 2007). Capability reputations can be useful in these types of situations because they can be used as proxies for underlying firm or product characteristics, and provide some guidance on whether one should select a different transaction partner, take corrective action through price adjustment, or make different competitive moves.

The second type of uncertainty that stakeholders can face is uncertainty over an organization's behaviors. This includes what the economics literature refers to as a moral hazard problem (e.g., Stiglitz, 2000). Moral hazard problems can manifest when stakeholders face the possibility of being exploited or treated unfairly because they are unable to directly observe the behavior of a transaction partner and there exist incentives for that partner to engage in opportunistic behavior (e.g., Arrow, 1971). Because character reputations involve imputations of an organization's goals, preferences, and values (e.g., Love and Kraatz, 2009), stakeholder groups use character reputations to predict not only opportunistic behavior but also a host of other behaviors. For example, customers may use an organization's character reputation to gauge the likelihood that it will produce goods in third world countries to circumvent labor or environmental regulations. Transaction partners may use character reputations to predict the willingness of the firm to ensure timely delivery of products, resolve problems, and fix mistakes at its own expense. Employees may use the firm's character reputation as an indicator of whether or not the firm will use layoffs as a first response to financial difficulties or if the firm would use layoffs only as a means of last resort.[2] In competitive interactions, uncertainty regarding a rival's intentions can make it difficult to predict when it might try to enter one's home market or when initiation of a competitive move, such as a price cut, might lead to a retaliatory reaction. Character reputations can be useful in these types of situations because they can provide insight into what a firm might do in a particular situation, and thereby help firms avoid opportunistic transaction partners and identify circumstances that may require additional monitoring or incentive alignment (e.g., Stiglitz, 2000; see also Fama, 1980; Jensen and Meckling, 1976; Williamson, 1975). In the following section, we review the literatures on social judgment and impression formation from social psychology and describe how they differentially apply to judgments about character and capabilities.

THEORETICAL FOUNDATIONS OF SOCIAL JUDGMENT AND IMPRESSON FORMATION

Research on social judgment and impression formation examines the ways in which individuals interpret and internalize information to evaluate others. This research is particularly applicable to the study of reputational assessments for three reasons. First, because reputations are collectively held judgments, the processes by which individuals form judgments have significant relevance in explaining how reputations form and change. Second, research in this area has long emphasized the differential impact of judgment biases on the types of assessments that are made, and thus are well positioned to address differences between reputational assessments of capability and character. Finally, individuals have a tendency to anthropomorphize nonhuman agents and objects (see, e.g., Epley, Waytz, and Cacioppo, 2007 for a review), including organizations (e.g., Love and Kraatz, 2009). Hence, the same sorts of judgment heuristics and decision biases that impact assessments of individuals are also likely to color how organizations are evaluated.

[2] We thank one of our anonymous reviewers for suggesting these examples.

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This research has demonstrated that two mechanisms have a major impact on how social judgments are made. First, social judgments appear to be path-dependent (see, e.g., Arthur, 1989; David, 1985), where prior beliefs determine both what is noticed and how a particular cue might be interpreted (e.g., Darley and Fazio, 1980; Fiske and Taylor, 1991; Merton, 1948; Srull and Wyer, 1979, 1980, 1989). Second, the diagnosticity of the cue determines how it will be incorporated to adjust the evaluation, depending on whether the cue is positively or negatively discrepant[3] with respect to prior beliefs (e.g., Skowronski and Carlston, 1987, 1989; Wojciszke, Brycz, and Borkenau, 1993). We discuss both of these mechanisms in more detail below.

Path dependence

Social judgments are path-dependent (e.g., Arthur, 1989; David, 1985) in that the prior beliefs about the focal dimension influence what observers expect and notice, as well as how actions and statements will be interpreted (e.g., Fiske and Taylor, 1991; Srull and Wyer, 1979, 1980). Path dependence affects judgments by leading observers to interpret equivocal cues as confirming their initial expectations, react in such a way as to induce confirmatory actions on the part of the target being assessed, and/or attribute disconfirming cues to situational factors (e.g., Darley and Fazio, 1980; Merton, 1948). This effect is likely as observers strive to maintain evaluative consistency regarding the targets of their judgments (e.g., Coovert and Reeder, 1990; Srull and Wyer, 1979, 1980, 1989). For example, in his description of the 'Matthew Effect,' Merton (1968) argued that as scientists gain renown, they are able to derive greater rewards than lower status scientists for equivalent work. This is because observers expect high status scientists to pursue important problems and maintain rigorous standards. This, in turn, also increases the likelihood that observers will pay more attention to the work produced by high status scientists because they expect the work to be of higher quality. Similar effects have been demonstrated at the organizational level in such contexts as law school rankings (Espeland and Sauder, 2007) and wineries (Benjamin and Podolny, 1999). Path dependence is not likely to play a role if no prior beliefs exist or if the beliefs are neutral or ambivalent, but if an observer has any prior beliefs about a target, whether through observation, inference, or direct interaction, those beliefs will shape the subsequent assessments about that target.

Cue diagnosticity

Once an observer interprets the meaning of a cue, it and other cues about a target are combined through a process of cognitive algebra to form an overall assessment (see, e.g., Anderson, 1974 for a review). However, certain cues are given greater weight than others (e.g., Hodges, 1974), and thus certain cues will have a greater impact on the overall evaluation of a target than other cues. In particular, the diagnostic weight that is given to a particular cue depends on the type of assessment that it is relevant to and the positivity/negativity of the cue.

When considering a target's competence and ability, positive cues are given greater weight than negative cues. This is because a positive cue about competence, such as the accomplishment of a goal or the performance of a task, demonstrates that the individual actually possesses the ability to perform at that level and thus is perceived to have greater diagnostic value (e.g., Skowronski and Carlston, 1987, 1989; Wojciszke *et al*., 1993). In contrast, a cue indicating the inability to accomplish a goal or failure to perform at a particular level, tends to be given less diagnostic weight because these outcomes can be attributed to situational characteristics or lack of motivation or effort (e.g., Anderson and Butzin, 1974; Surber, 1984).

The reverse is true when considering a target's behavioral tendencies. In this case, negative cues are viewed as more diagnostic and thus given greater weight than positive cues (e.g., Skowronski and Carlston, 1987, 1989; Wojciszke *et al*., 1993). This is because positive cues, such as good behavior, may merely be an indication of conformance with societal expectations and norms, thereby conveying relatively ambiguous or equivocal information about underlying attributes (e.g., Birnbaum, 1972; Hamilton and Huffman, 1971; Hamilton and Zanna, 1972). As a result,

[3] For example, a cue that implies that the organization may possess stronger performance capabilities than the existing assessment would indicate would be considered a positively discrepant or 'positive' capability cue. Similarly, a cue that implies that the organization may possess weaker performance capabilities than the existing assessment would indicate would be considered a negatively discrepant or 'negative' capability cue.

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positive cues may be considered the baseline—what is societally expected, making negative cues particularly salient as a deviation from the norm and seemingly much more diagnostic of the true underlying character of the target being evaluated.

Taken together, these mechanisms provide a compelling motivation for engaging social psychological theories of judgment formation to demonstrate how different types of reputational assessments are made. From this literature, it becomes apparent that the type of attribute being judged, the historical assessment of the organization along that attribute, and the valence in the discrepancy of the cue are all likely to influence how an organization is viewed by a particular stakeholder group. In the following section, we detail how a cue will impact an organization's capability or character reputation. Figure 1 is a graphical representation of our overall model of how cues influence reputational assessments.

SOCIAL JUDGMENT BIASES AND FIRM REPUTATIONS

A given cue will have potential implications for a firm's capability, character, or both. If the cue has potential implications for only one dimension, then it will be interpreted through the lens of the relevant prior assessment (i.e., existing capability or character reputation). On the other hand, if the cue has potential implications for both types of reputations, the prior beliefs that are called forth will depend on the dimension that is most relevant to the evaluator's goals with respect to the organization (e.g., Abele and Wojciszke, 2007; Wojciszke,

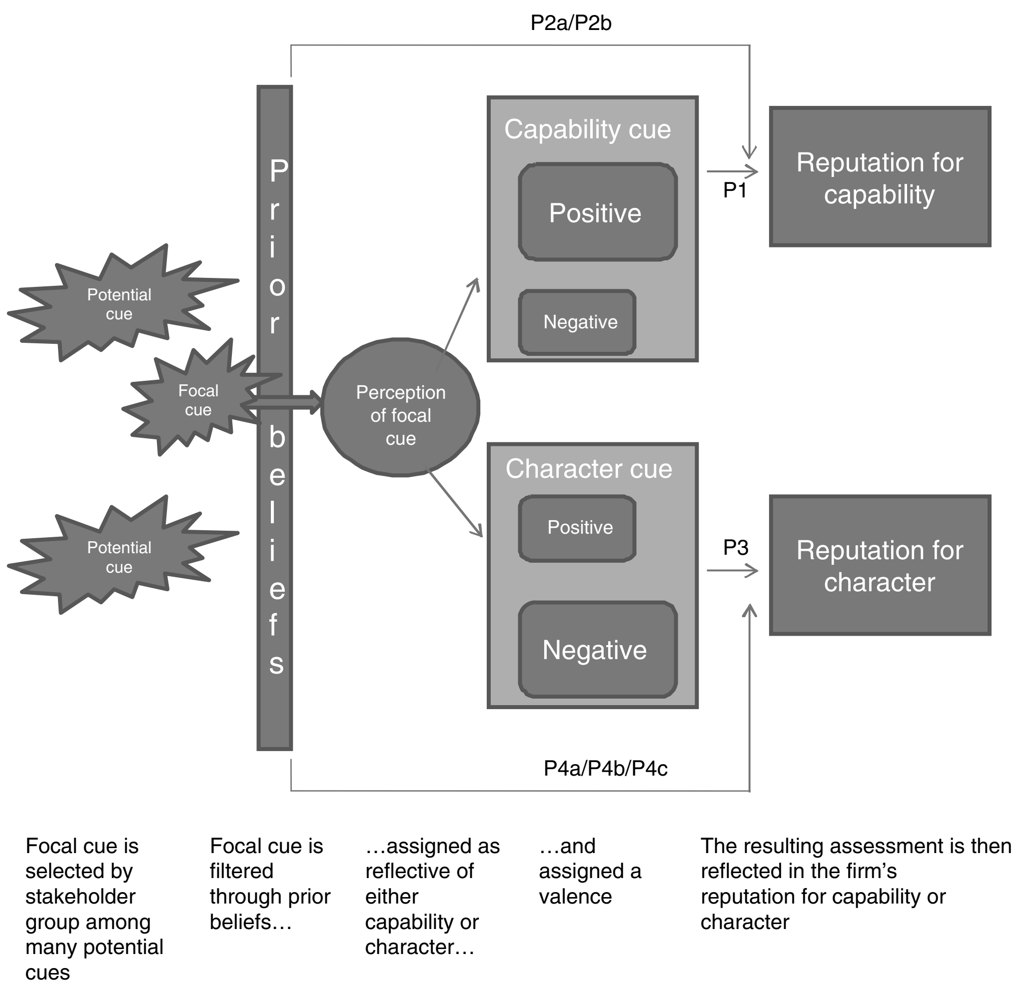

Figure 1. Overall model of how cues impact reputational assessments

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1994; 2005). This does not necessarily mean that evaluators will use idiosyncratic goal calculations, but rather that the nature of the evaluators' relationship to the target organization will make certain aspects of the organization more salient to them than others.

For example, while current and potential customers might care most about an organization's ability to produce high quality products; current and potential employees might be primarily interested in the organization's trustworthiness; analysts and investors, the financial health of the organization; and competitors, the organization's research and development capabilities. In this example, customers, analysts, investors, and competitors may be on the lookout for capability relevant cues and use the organization's existing capability reputation to interpret cues, while employees may be particularly attentive to character relevant cues and use the organization's existing character reputation to interpret subsequent cues.

If the evaluator determines that the cue is not actually relevant to the dimension of primary interest, however, the cue may then be interpreted through the other dimension. Prior studies have found that evaluators treat each cue as being relevant to only a single dimension even when the cue could have been potentially interpreted as having implications for both types of assessments (e.g., Wojciszke, 1994; 2005). As a result, it is likely that the only time both dimensions will be invoked in the interpretation of a given cue is when the cue is initially considered in relation to the primary dimension, but then discarded as not relevant to that dimension.

The prior beliefs that stakeholders hold about the capability or character of a focal organization provide a lens through which to interpret subsequent cues (e.g., Starbuck and Milliken, 1988), thereby making certain types of attributions more plausible than others. In particular, observers try to form a unitary, consistent impression whenever possible (Coovert and Reeder, 1990), and thus they use existing reputations to determine what the most plausible interpretation for a given cue is likely to be. Only a cue that is discrepant with the existing reputation, and thus implying that the current reputation may be too high or too low, will trigger a process of sensemaking (e.g., Weick, 1979; 1995) by which stakeholders try to determine exactly how the cue should impact their reputational assessment of the organization.

Although there can be numerous types of situations in which a discrepant cue would be evaluated in light of existing reputations, we address the role of three different factors on reputational revision: the type of discrepancy (positive or negatively discrepant), the type of reputation (character versus capability), and the favorability of the existing reputation (favorable versus unfavorable). In general, we argue that the magnitude of a discrepant cue will be positively associated with the impact that cue has on a firm's reputation, such that larger, more discrepant cues will tend to cause greater revisions of a firm's reputation. However, in one case, that of negative character cues, theory suggests that that these linear effects may not be appropriate, and instead, a firm's prior reputation may interact with cue magnitude to influence the impact of negative character cues. We take the degree of discrepancy as a given in all other cases and make an assumption that the impacts will be amplified or dampened based on the magnitude of the discrepancy between the cue and the existing reputation. For ease of discussion, we refer to positively and negatively discrepant cues as *positive* and *negative* cues, and capability relevant and character relevant cues as *capability* and *character* cues from this point forward. We begin by examining the impact of the type of discrepancy on capability reputations and discuss the expected differences in effects for firms with a favorable versus an unfavorable capability reputation.

Cue diagnosticity and firm reputation for capability

Based on our earlier discussion about assessments of cue diagnosticity, we argue that a positive capability cue will be considered to be more diagnostic than a negative one (Skowronski and Carlston, 1987, 1989). As a result, a positive capability cue will tend to have a more a powerful influence on reputational adjustment than a negative cue. This is because the most convincing evidence of a firm's ability to create high levels of value is that firm's historical accomplishments. Once a firm has demonstrated its ability to perform at a high level, future evaluations take such performance as a given, and stakeholders will believe that the firm is capable of creating a similar level of value. Consequently, a positive capability cue is given great credence as being indicative of the firm's full potential, whereas a cue indicating lower levels of

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capability may be attributed to other factors, such as poor execution or hostile environmental conditions, rather than changes in underlying potential (e.g., Anderson and Butzin, 1974; Surber, 1984). This leads to our first proposition:

Proposition 1: A positive capability cue will have a stronger influence on a firm's reputation for capability than a negative capability cue of the same magnitude.

Path dependency and firm reputation for capability

Since cues are interpreted based on prior beliefs (e.g., Starbuck and Milliken, 1988), the effects of a positive capability cue will tend to be moderated by a firm's existing capability reputation. The existing reputation primes evaluators to look for confirmatory or consistent cues, interpret ambiguous cues as confirming the initial expectation, and generally use prior reputation to simplify complicated information (e.g., Darley and Fazio, 1980; Espeland and Sauder, 2007). Additionally, actors who have gained renown for their accomplishments tend to be given greater credit for any subsequent accomplishment than those without such renown (Merton, 1968). For example, Pfarrer, Pollock, and Rindova (2010) found that investors reacted more favorably to positive earnings surprises of high reputation firms relative to firms without a high reputation. Similarly, in the California wine industry, Benjamin and Podolny (1999: 585) found that high status wineries were able to command higher prices for a given quality of wine because the firm's status influenced how much attention others paid 'to quality, their assessment of quality, and their regard for the product more generally.'[4] The implication, then, is that an existing capability reputation that is favorable is likely to increase the likelihood that a positive capability cue will be noticed, as well as the amount of weight that will be given to that cue, and thus an organization with a favorable existing reputation is apt to enjoy greater reputational gains from a given positive capability cue than one with a less favorable existing capability reputation. These ideas are summarized in the proposition below.

Proposition 2a: A positive capability cue from a firm with a more favorable reputation for capability will have a greater influence on a firm's reputation for capability than a positive capability cue of the same magnitude from a firm with a less favorable reputation for capability.

In contrast to the strong adjustment potential of a positive capability cue for a capability reputation, the influence of a negative capability cue is likely to be minimal, and potentially dependent on the prior evaluations of the firm. As noted earlier, a negative capability cue, such as the inability to accomplish a goal or failure to perform at a particular level, tends to be given less diagnostic weight because these outcomes can be attributed to situational characteristics or lack of motivation or effort (e.g., Anderson and Butzin, 1974; Surber, 1984). At the firm level, an incident of poor performance may be explained through external attributions (e.g., a 'bad economy' or higher input prices), in which case it may be viewed as a temporary blip or 'noise' that is not likely to be indicative of the firm's true capabilities. If a plausible external attribution is not available, a negative capability cue may be given an internal attribution. Here, too, the types of internal attributions made may include non-capability factors, such as a change in organizational priorities or a lack of employee effort and motivation.

As with positive capability cues, the reputational impact of a negative cue is likely to also depend on the prior beliefs that evaluators hold about the target organization's capability. Just as prior demonstrations of high levels of performance may make a subsequent positive capability cue more credible, such displays are also more likely to lead evaluators to conclude that a negative capability cue is not the result of declining organizational capabilities and instead due to other explanations. For example, for many years Microsoft launched new versions of its Internet browser (Internet Explorer) that were technologically inferior to others on the market (Klein, 2001). Evaluators in the media saw this not as a sign of Microsoft's inability to produce a strong product, but that, in light of the company's strong market position (Parr, 2009), it instead indicated Microsoft's weak motivation

[4] While status is conceptually distinct from reputation, Podolny (1993, 1994) notes that status is compatible with the economic notion of reputation because both act as proxies for quality. For more specific distinctions between reputation and status, see, for example, Deephouse and Suchman (2008), Devers and colleagues (2009), Jensen and Roy (2008), and/or Washington and Zajac (2005).

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(MacDonald, 2000) to keep on the technological forefront. As this example illustrates, a negative capability cue for firms with favorable reputations for capability will be seen as less diagnostic of a firm's true capabilities. This is summarized in the proposition below.

Proposition 2b: A negative capability cue from a firm with a more favorable reputation for capability will have a lesser influence on a firm's reputation for capability than a negative capability cue of the same magnitude from a firm with a less favorable reputation for capability.

Cue diagnosticity and firm reputation for character

In contrast to the strong reputational impact that a positive capability cue may have, a positive character cue tends to be viewed as having weak diagnostic value and thus has a very limited influence on a stakeholder's evaluation. As noted earlier, because 'good behavior' is considered normatively appropriate, a cue that provides evidence of such conforming behavior is expected regardless of what the target organization's true underlying character might be (Birnbaum, 1972; Hamilton and Huffman, 1971; Hamilton and Zanna, 1972). For example, one might consider the situation of a traditional American gas station that sells \$1 window stickers to customers to raise money for the March of Dimes, American Cancer Society, or some other worthy cause. Although this type of behavior is commendable, and generally well respected, such positive cues are unlikely to change the reputational evaluations that stakeholders hold about the gas station. It is unlikely that many customers would change their buying behavior to support such a gas station substantially more, or that such gas stations would be recognized by outside groups for their efforts. Instead, these cues are viewed as positive conforming behavior that provides little information about the organization's true character. Hence, even when a target firm provides evidence of good behavior, its diagnostic value for determining an organization's true character and intentions can be rather limited (e.g., Skowronski and Carlston, 1987, 1989). In contrast to positive character cues, we suggest that a negative character cue will be viewed as highly diagnostic. Since positive character cues are societally expected, a negative character cue tends to be jarring and noticeable, and as such will be viewed by evaluators as particularly revealing of the core and essential nature of the target due to their norm discrepant nature (e.g., Hamilton and Huffman, 1971; Hamilton and Zanna, 1972; Skowronski and Carlston, 1987, 1989). In essence, stakeholders will tend to assume that, because most organizations will not want to unnecessarily alienate them, only truly shady firms would do shady things. Together this is summarized in the following proposition:

Proposition 3: A negative character cue will have a stronger influence on a firm's reputation for character than a positive character cue of the same magnitude.

Path dependency and firm reputation for character

We argue that path dependency is also likely to moderate the influence of a character cue. Although all positive behavioral indicators are viewed as weakly diagnostic of a firm's true character, this is likely to be further exacerbated if a firm has a less favorable character reputation. Not only is a positive character cue only weakly diagnostic to begin with (Skowronski and Carlston, 1987, 1989) but from a firm with a lesser reputation such an indicator is also likely to be viewed with suspicion and distrust by evaluators because the expectation is that questionable firms will behave in a questionable manner (Fombrun, 1996). As a result, evaluators will suspect that ulterior motives may be behind the positive character cue, and thus such a cue will have a weak influence on the resultant character evaluation.

One illustrative example is the case of Walmart (known as Wal-Mart prior to its 2008 rebranding effort), which has been the target of criticism for quite some time regarding their labor practices. Some stakeholders view Walmart as having a problematic value system that prioritizes profitability over the well-being of their employees and local communities (e.g., Dube, Lester, and Eidlin, 2007; Mui, 2009). Although Walmart has recently been heavily involved in becoming environmentally conscious (e.g., Aston, 2009), it appears that unfavorable beliefs about their value systems have made it difficult to get credit for these environmental actions. Instead, because the existing belief is that Walmart cares only about corporate profits, these efforts have been met with indifference

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or active distrust by stakeholders who view these actions not as indicators of concern about environmental sustainability, but instead as a means to distract attention from labor issues (msnbc.com news services, 2005) or the ways in which its business practices have and continue to actively contribute to environmental degradation (Wal-Mart Watch, 2007). As this example illustrates, these dynamics imply that a firm with an existing unfavorable reputation for character may find it difficult or even impossible to fully overcome such an evaluation and achieve a favorable character reputation, even when sending strong signals that could otherwise be interpreted as indicating positive character. This idea is summarized in the following proposition.

Proposition 4a: A positive character cue from a firm with a less favorable reputation for character will have a lesser influence on a firm's reputation for character than a positive character cue of the same magnitude from a firm with a more favorable reputation for character.

Path dependence may also have further influences on stakeholder evaluations. First, a potentially negative character cue is likely to be interpreted differently for firms with highly favorable existing reputations for character. Because evaluators filter cues through their current view of the firm, the presumption is that organizations that have earned a favorable character reputation in the past will behave in a reliable, credible, trustworthy, and responsible manner (e.g., Fombrun, 1996; Love and Kraatz, 2009). For these organizations, a potentially negative character cue may be given an external attribution for some weak cues (e.g., bad luck) or be treated as an accident.

As Bromberg and Fine (2002: 1151) have noted, a highly favorable reputation may make certain incongruous behaviors and cues 'invisible' because they do not fit the representations currently held by audiences. Similar arguments have been made in several different literatures. For instance, classic research in social psychology has found that well-accepted actors gain 'idiosyncrasy credits' that build up by demonstrating competence in accordance with group expectations (Hollander, 1958). These credits can then be used to maintain standing in a group or with peers when the actor deviates from accepted practice, as a sort of built-up 'slack' for bad behavior. At the organizational level, favorable judgments about a firm's character may provide an organization with goodwill (Ashforth and Gibbs, 1990) that provides it with some amount of slack, such that contradictory negative cues are, at least initially, treated by stakeholders with some skepticism and the firm is given the benefit of the doubt. Hence, the cue may be attributed to external situational factors or, even if it is given an internal attribution, it may be minimized by treating it as a result of unintentional processes or unforeseen accidents.

Consistent with this notion, consumers were more willing to give a firm with a good reputation the benefit of the doubt when making inferences about underlying motive for pricing actions, thereby suggesting that reputations can be used to 'gain greater leniency from consumers and soften consumers' reactions to firms' actions' (Campbell, 1999: 190). Similarly, the literature on accounts and excuses (e.g., Scott and Lyman, 1968) has found that the explanations provided by highly regarded offenders are more likely to be positively viewed and internally accepted than those provided by lower status offenders (Blumstein *et al*., 1974; Massey, Freeman, and Zelditch, 1997). Indeed, in some instances, high status actors may not even be required to provide an explanation because their high moral character shields them from the necessity (Scott and Lyman, 1968).

Although a highly favorable perception of organizational character may initially provide a buffer from the consequences of a negative cue, the magnitude of the cue plays an important role in these judgments. In fact, the literature explicitly considers the asymmetric effects of magnitude, and argues that such slack is likely to be provided to only the most favorably viewed firms and for very minor transgressions. Specifically, Hollander (1958) notes that idiosyncrasy credits are not entirely durable, but simply provide room for *some* deviance. As such, multiple contradictory negative cues or a negative cue of significant magnitude will result in a rapid and substantial decline in organizational character reputation.

This leads us to a second potential influence of path-dependency bias in the evaluation of a negative cue for firms with favorable character reputations. When a negative cue breaks through the goodwill levels of idiosyncrasy credits, the consequences will be severe. In these cases, the character cue is not considered in isolation, but instead the overall evaluation of the organization may be reorganized to be consistent (Reeder and Coovert,

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1986), such that even previous cues may be reevaluated in light of the new information. Research in sociology offers similar evidence: Ducharme and Fine (1995) found that, after his infamous betrayal of the United States during the Revolutionary War, Benedict Arnold's entire personal history was reinterpreted by the public. Despite being hailed as a war hero and military leader early in his career, the public recast Arnold's prior successes as lucky coincidences and his acts of heroism as nefarious attempts to maximize the devastating impact of his eventual treason (Ducharme and Fine, 1995). Taken together, these two additional elements of path dependency moderation are summarized in the propositions below.

Proposition 4b: A weak negative character cue from a firm with a more favorable reputation for character will have a lesser influence on a firm's reputation for character than a weak negative character cue of the same magnitude from a firm with a less favorable reputation for character.

Proposition 4c: A moderate to strong negative character cue from a firm with a more favorable reputation for character will have a greater influence on the firm's character reputation than a moderate to strong cue of the same magnitude from a firm with a less favorable reputation for character.

TRANSLATING BIASES INTO MORE EFFECTIVE MANAGERIAL ACTION

The preceding propositions focused on how stakeholder groups would adjust their reputational assessments in response to new cues, thereby changing the firm's reputation. This does not mean, however, that a firm's reputation is determined and controlled completely by its stakeholders or that managers cannot shape their organization's reputation. By explicitly considering how cues are differentially interpreted and weighted, we offer insights as to how managers may better focus their efforts and resources when attempting to enhance and protect their firm's reputation. In particular, our arguments have direct implications for: strategic cue generation to improve the firm's reputation and firm impression management strategies to protect the firm's reputation from negative cues that have not yet been fully incorporated into the reputation. We detail our arguments and present formal propositions for each in the following sections.

Strategic cue generation to build a favorable reputation

A great deal of organizational time and effort is devoted to the strategic generation of cues in order to build a favorable firm reputation. It is important to note that an organization's decision to generate a specific cue does not ensure that that the cue will necessarily be noticed by external observers or be incorporated into subsequent reputational assessments. Nonetheless, they can be an effective way of shaping the firm's reputational trajectory. Building on the arguments leading to Propositions 1 through 4, the implications of stakeholder judgment biases for such strategic cue generation vary dramatically between capability and character cues.

When building a capability reputation, we argue that a firm should attempt to generate cues that involve demonstrable and measurable indications of the highest performance of which the organization is capable. Positive capability cues demonstrate that the firm actually possesses the ability to perform at a high level, and thus are perceived to have greater diagnostic value (e.g., Skowronski and Carlston, 1987, 1989; Wojciszke *et al*., 1993). As such, all subsequent cues will tend to be evaluated in light of the highest level of performance attained by an organization. Consequently, executives seeking to build a strong capability reputation for the firm should focus on generating a single strong cue to demonstrate firm capabilities. For example, at major international auto shows, top car manufacturers will often reveal what are known as 'concept cars' (Joseph, 2009). Many of these concept cars will never actually reach the production stage, but instead are intended to demonstrate to top rating organizations, media outlets, and consumers what the organization is truly capable of creating. As another example, Hyundai, a manufacturer typically regarded in the marketplace as a maker of lower-end vehicles, has recently released a new high-end model called the Equus. In explaining the car to the media, the CEO of Hyundai America noted, 'we have just two key goals in mind for Equus: show the world we can build a flagship sedan that rivals Lexus LS, BMW 7 Series and Mercedes-Benz S-Class, and in so doing

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build further confidence in the Hyundai brand with a broad audience of car buyers' (Krafcik, 2010). Reflecting the likelihood that this high-end model was more of a symbolic show of strength than a substantive new product launch, Hyundai will only be producing about 3,000 of these high-end cars each year (Ulrich, 2010).

These illustrations stand in contrast to the practice of earnings management, where firms use accrual accounting to smooth or manage earnings with the belief that stability in earnings is desirable (see, e.g., Dechow and Skinner, 2000 for a review). The idea here is that both gains and losses will be spread over several quarters to avoid both peaks and troughs in the firm's earnings. Contrary to the practice of earnings management, our theorizing would suggest that, given the choice of spreading earnings gains over several quarters and having a consistent stream of capability cues or of having a single quarter of extremely high earnings, a firm should do the latter if the goal was to have maximum impact on the firm's capability reputation. Of course, this does presume that the firm's primary concern is with reputational issues, since such a spike in performance may have other unintended negative effects as well (e.g., Mishina *et al*., 2010). These ideas come together to support the following proposition.

Proposition 5: A firm that generates a single strong positive capability cue will create a greater improvement in capability reputation than will a firm that generates a consistent stream of moderate to weak positive capability cues.

In contrast, our arguments regarding cue diagnosticity biases in evaluating organizational character suggest that the weak diagnosticity of positive character cues supports a strategy that emphasizes a consistent stream of cues rather than one frame breaking cue. Given that good behavior is expected in society, a single positive character cue will have little effect on evaluative judgments as it simply suggests conformance with typical norms, providing little information about underlying firm values (Birnbaum, 1972; Hamilton and Zanna, 1972). As a result, it takes a pattern of behavior, reinforced over time, to build a strong positive character reputation, with firms judged particularly for the consistency of their track record and efforts (Pfarrer *et al*., 2008). This suggests that firms that would like to reap the benefits of a strong positive character reputation should make significant efforts to create a consistent, even if somewhat symbolic or manufactured, stream of cues, regardless of magnitude, to build a pattern. This leads to the following proposition.

Proposition 6: A firm that generates a consistent stream of moderate to weak positive character cues will create a greater improvement in character reputation than will a firm that generates a single strong positive character cue.

Impression management strategies to protect a reputation

Social judgment biases can also provide insight into how firms should respond to negative cues that have not yet been fully incorporated into the reputation. Firms often use impression management in response to negative cues as a way to manage stakeholder perceptions and evaluations (e.g., Arndt and Bigelow, 2000; Elsbach and Sutton, 1992). Although researchers have examined a variety of specific tactics, these tactics generally fall into one of two different categories: techniques to amplify positive cues about the organization and those that minimize or obfuscate the negative cues about the organization. Although firms will often employ both amplifying and minimizing techniques, they are unlikely to be equally effective (Ginzel, Kramer, and Sutton, 1993) or appropriate in all circumstances. As such, considering the dynamics of social judgment biases can provide insights as to when these techniques can be employed effectively.

We argue that the effectiveness of the impression management techniques deployed will vary depending on the type of negative cue. For negative capability cues, we argue that the firm should deploy impression management techniques that amplify positive cues about its capability rather than focus their efforts on dampening the negative cue. In the previous section we discussed the importance of demonstrating the outer bounds of the organization's capabilities, and based on our earlier discussion about the diagnosticity of cues (Skowronski and Carlston, 1987, 1989), we argue that positive capability cues will tend to have a more powerful influence on reputations for capability than the negative ones. By pointing to convincing and quantifiable evidence of a

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firm's historical ability to create value, organizational managers can remind stakeholders that the organization has, in fact, reached such levels of ability and increase the likelihood that the inconsistent, negative capability cue will be attributed to external or situational factors.

Proposition 7: Impression management efforts directed toward amplifying prior positive capability cues will be more effective in protecting a firm's capability reputation than efforts focused on dampening negative cues.

In contrast, we suggest that for negative character cues, amplifying the firm's prior good deeds may not be enough to repair perceptions of the firm's character. This is because, even for firms with favorable prior character reputations, one strong negative character cue may be enough to reorganize and reframe the organization's entire history (Reeder and Coovert, 1986; Ducharme and Fine, 1995). In addition, given the diagnosticity and stickiness of negative character cues (Skowronski and Carlston, 1987, 1989) firms are unlikely to be able to rely solely on their stored up goodwill (Hollander, 1958) from past behaviors to combat the negative character cues. Instead, a more effective approach would be to direct their efforts and resources toward minimizing and obfuscating the negative cues. This may involve undermining the source of the cue, blocking its wide dissemination, and altering its meaning or significance. The key under this circumstance is to make the cue disappear as quickly as possible before it can do significant damage.

Proposition 8: Impression management efforts directed toward dampening the negative cues will be more effective in protecting a firm's character reputation than efforts focused on amplifying prior positive character cues.

DISCUSSION AND IMPLICATIONS

The goal of this paper was to investigate the socio-cognitive processes through which reputational assessments are made and altered. We distinguished between two types of reputations that stakeholders utilize in their interactions with other organizations and drew upon research on judgment biases to examine how organizational capability and character reputations are differentially built and damaged. Our theorizing extends research on organizational reputations by providing unique insights into how firms can better build and manage their reputations.

Theoretical implications

This research has several theoretical implications for future work on organizational reputation. First, we begin to disentangle what Rindova and colleagues have dubbed the favorability component of reputation (e.g., Rindova *et al*., 2005, 2007) into two types—favorability about an organization's character and favorability about an organization's capability. Distinguishing between the two fundamentally distinct types of reputational assessments made by stakeholder groups is particularly important because social judgment biases and heuristics affect the two types of reputation in different ways, different strategies are effective for enhancing or protecting each type, and because the two types of reputation are likely to be relevant in different situations.

Our research also underscores the need to integrate the notion of character reputation more explicitly into research on organizational reputation. Although quality and performance related reputation has been well studied as a resource (e.g., Roberts and Dowling, 2002; Srivastava *et al*., 1997), there may be a significant opportunity to contribute to the reputational literature by exploring character-based advantages that emerge as an intangible resource for firms. Our theorizing suggests that a character reputation may be precisely the type of organizational resource that can provide firms with a sustainable competitive advantage (Hall, 1993), because it is likely to be subject to both time compression diseconomies and asset mass efficiencies (Dierickx and Cool, 1989: 1507–1509). Specifically, because negative character cues are considered more diagnostic than positive ones (e.g., Skowronski and Carlston, 1987, 1989), building a favorable character reputation is likely to require a consistent stream of positive character cues over time (Pfarrer *et al*., 2008) and would be difficult to build quickly. Additionally, since the assumption is that questionable firms will behave in questionable ways (Fombrun, 1996), firms with a more favorable character reputation will find it easier to further enhance their character reputation than would firms with a less favorable character reputation. Exploring how and why different types of firms are able to exploit their character reputations to position themselves in the marketplace is a potential direction for future research.

This paper also begins to integrate insights from social psychology with the organizational reputation literature in order to better understand the ways reputations form and decline. In doing this, we follow Stiglitz's (2000: 1471) suggestion to draw upon research in psychology to determine how 'individuals process information, form expectations, and select among possible signals.' This approach has also enabled us to begin exploring the microfoundations of organizational reputation, similar to the type of work recent scholars have done on various types of capabilities (e.g., Ethiraj *et al.*, 2005; Felin and Foss, 2005; Teece, 2007). While these scholars have examined the individual-level actions and interactions that may result in the formation and utilization of capabilities, we explored how individual-level social judgment biases may impact the formation and utilization of organizational reputations. As our arguments suggest, the joint effects of path dependence and cue diagnosticity biases should produce very different patterns of growth and decline for capability versus character reputations, as well as make different tactics effective when trying to enhance or protect these reputations. Our work thus takes a first step toward developing theory that is needed to disentangle reputation growth, decline, and maintenance in the presence of path dependence and judgment heuristics that impose temporal and behavioral constraints on traditional models of reputation and reputational management.

Related to this issue, our work provides a new lens through which to evaluate the potentially complex theoretical situation in which a firm could maintain disparate and distinct reputational characteristics simultaneously. As an illustration, the ideas from our work could be used to reexamine a finding from the prior literature. Specifically, Carter and Deephouse (1999) examined how Walmart attempted to manage its reputation for being demanding and difficult in their dealings with suppliers while providing strong performance and good value to customers and investors. Walmart's reputation with suppliers might largely be what we refer to in this paper as a character reputation, while its reputation with customers and investors appears to be a capability reputation. Our theorizing suggests that it may be difficult to build or maintain a favorable character reputation or an unfavorable capability reputation, but building or maintaining a favorable capability reputation or an unfavorable character reputation may prove somewhat easier. In this case, Walmart's existing reputation—unfavorable character and favorable capability—and the diagnosticity of both negative character cues and positive capability cues (e.g., Skowronski and Carlston, 1987, 1989) imply that these two types of reputations would be fairly easy to maintain.

Further, our theorizing allows us to understand why and how the same cue may have a different impact across organizations. Our arguments highlight the importance of a) the type of reputation in question (i.e., capability or character), b) the positivity or negativity of the discrepancy between the cue and the reputation, c) the magnitude of the discrepancy, and d) the current level of the reputation in determining the potential impact of a given cue. If two firms with differing reputations experienced the same cue, the type of reputation that is relevant will also be identical, but two to three of the other important variables are likely to differ across the two cases. We have already stated that the current levels of the reputation are different, and thus either or both of the variables associated with discrepancy will also be different. Depending on the levels of the reputations and the cue, the cue may be positively discrepant with both firms' reputations, negatively discrepant with both, or be positively discrepant with one and negatively discrepant with the other. Consequently, the discrepancies may be different in terms of magnitude, valence (i.e., positivity/negativity), or both. Our propositions specifically deal with three of these factors directly: the type of reputation, positivity/negativity of the discrepancy, and the current level of the reputation. As for the fourth, the magnitude of the discrepancy, we suggest that the degree to which a given cue violates existing stakeholder expectations is likely to amplify or dampen a cue, such that larger, more discrepant cues will tend to cause greater revisions of a firm's reputation. However, there is no theoretical basis to predict which of the four factors will have the greatest effect on a reputation, and thus more specific predictions will require empirical testing to derive coefficient estimates for these factors.

Finally, our research also highlights the theoretical potential for research on the negative side

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of reputation. Although the 'dark side' of reputation has historically received less attention in the literature (Hirsch and Pozner, 2005), our arguments provide some foundations and directions for pushing further into the dynamics of broken and imperfect firm reputations. Particularly in our 'translating biases' section, our research begins to scratch the surface of possibilities for theoretical and empirical work into firm reputations that are far from productive assets, but are instead damaged and disadvantageous. How these firms may manage the generation of reputational cues, employ impression management tactics, and position themselves for interorganizational relationships all provide rich theoretical ground for additional research.

Future directions

We believe that our theorizing highlights several opportunities for future research. First, it may be useful to examine the different aspects of reputation. Rindova and colleagues (2007) noted that reputations can be thought of as having four different aspects: prominence, evaluative favorability, descriptive content, and esteem. We opted to focus our examination on the favorability aspect of organizational reputations because the impression formation and social judgment literature deal with evaluations of favorability and do not speak directly to issues of prominence, descriptive content, or esteem; because once an evaluation is made of a target, subsequent behaviors tend to be assessed in terms of that evaluation (e.g., Fiske and Taylor, 1991; Srull and Wyer, 1979, 1980, 1989); and because much organizational research on reputations has been concerned with the organizational consequences of favorability.

Nonetheless, other aspects of reputation, such as the prominence of the firm, may influence our proposed relationships. Prominence refers to the degree to which external audiences are aware of an organization and consider it to be relevant and salient (e.g., Rindova *et al*., 2005, 2007). Stakeholders closely monitor and attend to the actions and outcomes of prominent organizations (Brooks *et al*., 2003), and thus are more likely to notice and react to both positive and negative cues about the firm. Additionally, because information about prominent firms is more cognitively available (e.g., Brooks *et al*., 2003; Rindova *et al*., 2005, 2007), existing reputational assessments have a greater impact on the interpretation of subsequent cues. The joint effect of these two processes might be to amplify the effects that we propose in our paper, as well as to produce more polarized and extreme reputations (e.g., Brooks *et al*., 2003). However, the exact manner in which prominence and the other aspects of reputation will influence one another or how the different aspects of reputation will change over time remain open empirical questions.

Another possibility for future research would be to examine the relationships between the perceptions and evaluations of different members of a stakeholder group. In our paper, we develop arguments at the stakeholder-group level, with the assumption that a variety of mechanisms will result in similar types of attention and interpretation by the members of the stakeholder group. We do so because we believe that collective representations, such as a reputation, and individual-level cognitions influence one another over time (e.g., Porac, Ventresca, and Mishina, 2002). Thus, industry recipes (Spender, 1989), industry taxonomies (Porac *et al*., 1995), media stories (e.g., Gamson *et al*., 1992), public measures and rankings (Espeland and Sauder, 2007), the sense-giving efforts of market participants (e.g., Gioia and Chittipeddi, 1991; Gioia *et al*., 1994), and institutional pressures (e.g., DiMaggio and Powell, 1983) are all likely to influence individual schemas, and thus the assessments that individual stakeholders make. These individual assessments, in turn, are diffused through the actions, statements, and sense-giving efforts (e.g., Gioia and Chittipeddi, 1991; Gioia *et al*., 1994) of the stakeholders involved, especially since actors tend to observe referent others to determine how to interpret a particular situation and what actions to take (e.g., DiMaggio and Powell, 1983; White, 1981a, b). Hence, while there may be some variation in individual assessments of a particular target organization, we believe that a variety of mechanisms will serve to create consensus and reduce the gap between individual assessments and the reputation of the firm vis-à-vis the stakeholder group.

Nonetheless, it is always possible that any individual stakeholder's assessments may diverge from more widely held evaluations of the firm. For example, there may be greater variation in assessments if some members of the stakeholder group have direct experience with the firm while others have only vicarious information. Assessments may also be more varied for firms that are less prominent, as such firms are less cognitively available,

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and thus not all cues may be noticed by all members of the stakeholder group. Examining when there may be greater or lesser consensus regarding assessments of a target organization may be a worthy topic for future study.

We also focus on stakeholder-specific reputation rather than an aggregate, cross-stakeholder reputation because we assume that individual members of a stakeholder group may come to a similar evaluation of a particular target, but that different categories of stakeholders might not. Some have suggested that it is better to conceptualize and examine reputation as specific to a stakeholder group (e.g., Carter and Deephouse, 1999; Rindova *et al*., 2005), while others argue that it is much more meaningful to examine reputation as a net assessment across all stakeholders, even if different stakeholders have different assessments (Fombrun, 1996; Fombrun and Shanley, 1990). We believe that our theorizing applies to stakeholder-specific reputations, but is less applicable if one is discussing an aggregate, cross-stakeholder reputation because many of the assumptions that we make are less applicable when discussing a heterogeneous group of stakeholders.

As Carter and Deephouse (1999) demonstrated, for example, Walmart was viewed in a very different way by its suppliers than by its customers and investors. Indeed, although we believe that one can find common evaluations within a particular stakeholder group, how evaluations would aggregate across different categories of stakeholders is likely to be highly organization-specific and depend on the relative number, influence, and visibility of the different stakeholder groups of each organization. Additionally, because different stakeholder groups care about different aspects of the firm, they may be differentially vocal and/or influential depending on whether one is discussing capability or character reputations. It should be noted that this does not preclude the possibility that, in some cases, an organization may be viewed in very similar ways by all of its stakeholders, and in some instances, an organization's reputation with one group of stakeholders may influence how other stakeholders evaluate the organization. When and under what condition this is likely to occur may be worthy of future study.

We also make the assumption that, consistent with prior research, evaluators treat each cue as being relevant to only a single dimension even when the cue could have been potentially interpreted as having implications for both types of assessments (e.g., Wojciszke, 1994; 2005). We thus believe that a firm's character reputation, for instance, will not have a direct impact on the same firm's capability reputation. Nonetheless, our theorizing does suggest that one type of reputation could influence the other type of reputation through a more circuitous route. The more extreme the firm's reputation, whether it be extremely favorable or extremely unfavorable, the more likely that it will influence which cues are noticed, what dimension a given cue will be viewed as relevant to, and how the cue will be evaluated. Thus, if a firm has a very poor character reputation with respect to a particular group of stakeholders, those stakeholders are more likely to notice character relevant cues and interpret cues in light of the existing poor character reputation. Hence, even strong performance might be viewed as an indication of poor character rather than favorable capability. For example, the recent scandals in the financial services sector have instilled the belief in many people that Wall Street banks had problematic value systems and would behave in problematic ways, thereby lowering the character reputation of many or most of these banks. Thus, when Goldman Sachs, JP Morgan, Bank of America, and Citigroup reported having perfect trading quarters (i.e., made money on every single day) between January 1 and March 31 of 2010, many immediately began to suggest that this was due to market manipulation and nefarious activities rather than skillful trading or shifts in the banks' business practices toward market-making (Ryder, 2010; Weil, 2010). Consequently, although the perfect trading quarter could have been treated as a capability cue that demonstrated these firms' market prowess, rightly or wrongly, it seems to have been interpreted as a character cue that underscored the inherent shadiness of Wall Street banks. If even performance cues cease to be associated with capability, such firms would not only have difficulty in improving their character reputations, but also have difficulty in improving their capability reputations. When and under what conditions particular cues begin to lose their association with a given reputational dimension or how firms may begin to lose avenues for improving their reputation may thus be an interesting avenue of study as well.

Finally, our theorizing opens up additional avenues for empirical study of reputations. We believe that the exact way in which the discrepancies

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between a cue and a reputation could be measured would depend on the empirical context—that is, specific type of reputation, the type(s) of cues, the industry, and the specific stakeholder group, among other things. As such, it is somewhat difficult to provide a one-size-fits-all measure. Nonetheless, in thinking about the issue of measurement, in some cases, it may be possible to use archival measures, such as return on assets or stock price, and compare the new cue to prior cues (in terms of discrepancy with the maximum, mean, median, and/or minimum) over some time period, such as the past year or past five years, for example, in order to get some measure of discrepancy. Alternatively, perhaps independent evaluators could provide ratings of perceived discrepancy. For example, Dollinger, Golden, and Saxton (1997) provided MBA and executive MBA students with scenario information about different firms in order to study how reputations impact decisions about whether or not to engage in a joint venture. Maybe a similar design could be used to have participants rate the degree to which particular cues (e.g., firm actions) might be discrepant with the information they had been presented about the firm.

CONCLUSION

In this paper, we derive a set of propositions from two key insights from the social judgment literature—that assessments of capability and character are fundamentally different and that prior assessments influence how subsequent information is perceived and interpreted. These propositions explain how firm actions and outcomes might translate into reputations and provide guidance as to how firms could manage their reputations. In doing so, we have uncovered opportunities yet to be explored, including new problems that need attention.

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