Regulatory agencies, reputational threats, and communicative responses

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Abstract

A key claim in bureaucratic reputation literature is that reputation has several dimensions. This presents agencies with a difficult choice concerning which dimension(s) they should emphasize in the management of their reputation. This paper analyzes how regulatory agencies manage their reputation through communicative responses to public judgments, based on a single-case study of the German financial regulator BaFin. Our theoretical argument underscores the importance of different reputational dimensions for regulatory agencies that simultaneously considers their distinct reputation reserves. Our main finding was that BaFin prioritizes responses to public judgments targeting reputational dimensions that are central to its mission and for which the agency has a weak reputation, as opposed to judgments targeting dimensions that are central to its mission and for which it has a strong reputation, or judgments targeting peripheral dimensions. The paper demonstrates the importance of agency missions for reputation management and suggests directions for further research.

Keywords: bureaucratic reputation, financial regulation, regulatory agency, reputation management, strategic communication.

1. Introduction

This paper examines how regulatory agencies manage their distinct reputation with stakeholders through the selective use of communication (Carpenter 2010a; Maor *et al.* 2013; Gilad *et al.* 2015; Christensen & Lodge 2018; Moschella & Pinto 2019; Busuioc & Rimkutė 2020; Maor 2020; Rimkutė 2020a; Rimkutė 2020b). We define reputation as the relevant audiences' beliefs about an organization and its distinct characteristics (Carpenter 2010b). A favorable reputation among relevant audiences is a valuable asset for agencies seeking autonomy and, ultimately, organizational survival. From this definition follows the main analytical focus of bureaucratic reputation theory: "*look at the audience*, and *look at the threats*" (Carpenter 2010a, p. 832, italics in original).

The key implication of a reputational perspective on organizational behavior is that reputation-seeking will manifest itself through agencies' "uneven responsiveness to – and management of – their multiple audiences" (Wæraas & Maor 2015, p. 5). Audiences may hold different and competing views about the distinct qualities of an agency, reflecting different dimensions of organizational reputation (Carpenter & Krause 2012). The process through which agencies carefully balance the demands of different audiences and their prioritization of some aspects of their reputation over others is at the core of a reputation-based account of administrative behavior (Carpenter 2010b; Carpenter & Krause 2012; Maor 2015; Busuioc & Rimkutė 2020). This paper asks whether and how reputation-seeking behavior manifests itself through agencies' distinct patterns of communicative responses to public judgments about different reputational dimensions by multiple audiences.

Our research theorizes and empirically tests the claim that the multi-dimensional nature of reputation presents regulatory agencies with a difficult choice concerning the dimension(s) they emphasize in the management of their reputation (Carpenter & Krause 2012; Maor 2015; Busuioc & Lodge 2017; Christensen & Lodge 2018; Busuioc & Rimkutė 2020; Fink & Ruffing 2020; Rimkutė 2020a; Rimkutė 2020b; Boon et al. 2021). We developed and tested a novel theoretical argument concerning the implications of regulatory agencies' distinct reputational profiles for their reputation management and how they deal with tradeoffs between multiple reputational dimensions. We hypothesized that a regulator's inclination to respond to public judgments depends on whether judgments address reputational dimensions which are central (or peripheral) to its mission and whether the regulator's reputation is strong (or weak) for those dimensions. We thereby respond to a recent call for more empirical research that addresses the implications of the multi-dimensional nature of bureaucratic reputation head-on (Boon et al. 2021). In addition, we theorized that a regulator's inclination to respond to public judgments depends on the audience that criticizes or endorses the regulator (Maor et al. 2013).

This paper broadens the scope of existing scholarship on bureaucratic reputation management through communicative behavior (Maor 2020). In particular, our analysis speaks to existing studies of how financial regulators react to reputational threats through communicative behavior (Carpenter 2010a; Maor et al. 2013; Gilad et al. 2015; Moschella & Pinto 2019). These studies demonstrated how financial regulators in the United States and Israel strategically use communication to manage different kinds of reputational threats. In this paper, we analyzed how the Federal Financial Supervisory Authority BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht), Germany's integrated financial regulator for banking, securities, and insurance, reacts to public judgments through communicative behavior. Studying the same type of agency (a financial regulator) in a different context allows us to assess the external validity of existing research, while preventing conceptual stretching (Carpenter 2020).

The next section reviews the literature on regulators' communication strategies and highlights our contribution to this literature. Thereafter, we present our analytical framework and formulate hypotheses about regulators' propensity to respond to public judgments. After that, we report our data and methods, a systematic analysis of BaFin's responses to public judgments in the news media. Following this, we present our analysis and discuss the limitations of our research design, as well as the implications of our findings for scholarship on bureaucratic reputation management. Finally, we conclude with suggestions for further research.

2. Organizational reputation and communicative behavior

A growing body of research has demonstrated that a favorable reputation among relevant audiences is an important source of bureaucratic power. In consequence, nurturing a favorable reputation is of vital concern for agencies who may seek to influence those perceptions, inter alia, through communicative behavior. The theories of bureaucratic reputation conceive public organizations as politically conscious actors that actively seek to manage their reputation (Wæraas & Maor 2015). These theories suggest that regulatory agencies, when exposed to reputational threats, are likely to exhibit distinct strategies (i.e., patterned responses) for dealing with those threats.

The empirical traction of bureaucratic reputation theory has been demonstrated in a growing number of studies, mainly in the United States (Moffitt 2010; Carpenter 2010a; Carpenter 2010b; Maor & Sulitzeanu-Kenan 2013) but increasingly outside the United States (Gilad 2015; Maor & Sulitzeanu-Kenan 2016; Bækkeskov 2017; Hinterleitner & Sager 2019). In particular, our work speaks to a growing body of research that studies how regulators use communicative strategies to deal with reputational threats (Carpenter 2010a; Maor et al. 2013; Gilad et al. 2015; Bach et al. 2019; Moschella & Pinto 2019; Rimkutė 2020b). Those studies, while focusing on different types of communicative behavior, demonstrate that regulators strategically react to challenges, such as public allegations, parliamentary questions, looming organizational reforms, and uncertainty in the regulator's environment, which potentially threaten existing organizational reputation. For instance, reputational threats may originate from poor agency performance or from changing expectations among key audiences (Maor 2020).

The study of financial regulators and central banks is particularly prominent in the literature on agencies' strategic communication. Carpenter (2010a) provided anecdotal evidence on how US central bank governors (of the Federal Reserve System or FED) suddenly adopted a rhetoric of consumer protection when threatened by the creation of an independent consumer protection agency in the wake of the financial crisis of 2008. Moschella

and Pinto (2019) demonstrated how conditions of uncertainty shaped the communicative behavior of FED governors. They showed that, under conditions of uncertainty, agencies systematically under-communicate on issues related to their unique reputation to reduce the risk of publicly exposed policy reversals. Bach *et al.* (2019) compared the exposure of three financial regulators in Europe to reputational threats before, during, and after the financial crisis. They showed that these financial regulators were mostly exposed to threats regarding the performative dimension of their reputation.

The study by Maor *et al.* (2013) investigated regulators' reputation management through the strategic use of communication and analyzed how the Israeli banking regulator, an autonomous unit within the central bank, responded to public judgments on its performance. Maor *et al.* (2013) argued that regulatory agencies make a conscious decision about whether to respond to public judgments ("regulatory talk") or not ("strategic silence"). They found supportive empirical evidence for patterned responses, depending on a given reputational profile, for the different tasks performed by the regulator. For tasks where the regulator's reputation among relevant audiences was high or for which they were peripheral to its unique reputation, the regulator tended to remain silent when faced with public judgment. In contrast, the regulator was more likely to respond to public judgments that targeted tasks around which its reputation was evolving.

In a related paper, Gilad *et al.* (2015) provided a more nuanced analysis of the substance of the same regulator's explicit responses to public judgments, distinguishing between non-response, problem denial, and problem admission. They investigated communicative responses depending on the types of public judgments regulators faced, including claims of excessive and lenient regulation. They showed that regulators tend to admit problems if accused of lenient regulation but are likely to reject allegations of excessive regulation. Moreover, they demonstrated that regulators are more likely to admit problems when facing judgments regarding a task for which they have a relatively poor reputation.

The papers by Maor *et al.* (2013) and Gilad *et al.* (2015) have substantially improved our understanding of regulators' communicative responses to public judgments and introduced a novel methodological approach for studying the dynamics of public judgments and agency responses. Importantly, these authors convincingly argue that reputation scholars should consider that regulators' reputations may differ across multiple tasks within the same organization and that regulators' reputational vulnerability differs across tasks and types of public judgments. That said, Maor *et al.* (2013) and Gilad *et al.* (2015) distinguish between strong, evolving, or poor reputations for different tasks, yet they do not explicitly consider the dimensional nature of bureaucratic reputation, which encompasses different normative standards for assessing regulators' activities rather than one single dimension ranging from strong to poor reputation (see next section).

A growing number of studies have addressed reputation management through communicative behavior by regulatory and executive agencies in policy domains other than financial regulation. In a comparative analysis of the regulation of glyphosate in the United States and the European Union, Rimkutė (2020b) demonstrated how different reputational vulnerabilities have resulted in differential responses to allegations of having underestimated the health risks of a widely used herbicide. More specifically, this study showed how a regulator with a strong reputation remained almost silent when faced with severe allegations, whereas regulators with emerging reputations responded by public justifications and by emphasizing their technical reputation. In a study of European Union agencies' communications (such as annual reports, institutional websites, and strategic plans), Rimkutė (2020a) found that agencies facing high numbers of reputational threats emphasized their technical reputation in their communications, which reflects the *raison d'être* for those agencies as expert bodies (Busuioc & Rimkutė 2020). Another study compared how societal security agencies in different countries presented themselves on their websites (Christensen & Lodge 2018). Although not focusing on responses to specific reputational threats, Christensen and Lodge (2018) demonstrated how agencies' emphasis of different reputational dimensions in their communications co-varies with those agencies' tasks.

This brief review of existing research shows how regulators communicate strategically when facing reputational threats targeting different tasks (Maor *et al.* 2013; Moschella & Pinto 2019) or different types of criticism (Gilad *et al.* 2015). Moreover, the literature highlights how regulators' communicative responses depend on their distinct reputational vulnerabilities (Rimkutė 2020b) and how regulators emphasize distinct reputational dimensions in their communications (Christensen & Lodge 2018; Rimkutė 2020a). What is missing from current research, however, is a systematic analysis of how regulators respond to public judgments targeting specific

reputational dimensions of their activities. The abovementioned studies show that regulators respond strategically to public judgments regarding specific functional areas within their task portfolio, and they show that regulators emphasize different reputational dimensions in their communication. However, existing research has not combined these two analytical approaches into a coherent theoretical argument. While the recent literature demonstrates that regulators strike a balance between different reputational dimensions in their communications, it remains largely silent on regulators' immediate responses to public judgments targeting specific reputational dimensions of a regulator's activities.

The present paper fills this research gap by developing a novel theoretical argument about regulators' communicative responses to public judgments targeting different reputational dimensions. Moreover, we developed explicit expectations as to which reputational dimensions are more central to a regulatory agency's overall reputation, which may be subjected to further empirical testing. We suggest that theorizing regulatory agencies' responses toward public judgments targeting different reputational dimensions is an important step toward increasing the generalizability of bureaucratic reputation theory. In the next section, we further elaborate our theoretical argument and present testable hypotheses.

3. Theorizing regulatory agencies' communicative responses to reputational threats

This paper's theoretical argument revolves around regulatory agencies' use of communication to manage their reputation when faced with public judgments (Maor 2020). Public judgments represent potential threats to different dimensions of a regulatory agency's reputation, yet not all reputational dimensions are equally important for an agency to thrive (Rimkutė 2020a). Against this background, we suggest that communicative responses to reputational threats reflect an agency's endogenous prioritization of its outward appearance. In other words, agencies seek to "stress particular aspects of their competence to enhance audience perceptions of niche roles, uniqueness, and appropriateness" (Busuioc & Lodge 2017, p. 93).

Similar to Maor *et al.* (2013), Gilad *et al.* (2015), and Rimkutė (2020b), we distinguished between an explicit communicative response to a public judgment (e.g., a statement by the agency chief executive) and the lack of such a response as indicators for reputation management. The underlying assumption is that agencies carefully consider potential effects to their reputation when deciding whether to engage in public debates related to their own activities or keep a low profile (Hood 2011) and pursue what Maor *et al.* (2013) have labeled "strategic silence." For instance, agencies may choose to remain silent in order to avoid reputational costs associated with reversing a statement at a later point in time (Moschella & Pinto 2019) or they may stay silent in order to diligently pursue their core activities instead of directing resources into public debates (Rimkutė 2020b).

In addition, we developed a general argument regarding the connection between the substance of public judgments – the reputational dimensions being praised or criticized – and agencies' communicative responses (i.e., whether they respond to a public judgment or remain silent). We developed three hypotheses on regulatory agencies' patterned responses to public judgments.

At a fundamental level, bureaucratic reputation theory suggests that regulatory agencies will be particularly sensitive to negative public judgments ("reputational threats") (Carpenter 2010a). Leaving a negative public judgment unanswered is likely to incur reputational costs for a public organization. This expectation can also be derived from the literature on "blame avoidance" in the public sector, which shows that public attention is driven by a negativity bias (Hood 2011). A negativity bias is said to shape the decision-making behavior of politicians and bureaucrats, which follows the premise of avoiding blame, rather than claiming credit. A typical approach for dealing with negative public judgments is the use of arguments or "presentational strategies" (Hood 2011, p. 17) to play down the negative aspects of a given issue or to redirect blame to other actors.

We therefore expected a regulatory agency to be more likely to publicly respond to negative judgments, rather than to remain silent. We assumed that negative or mixed negative and positive judgments – in contrast to solely positive judgments – represent a potential threat to the agency's reputation among relevant audiences. Although the agency may still choose to remain silent, it may be more inclined to respond publicly when facing negative (or mixed) judgments compared to positive judgments. We proposed the following hypothesis:

H1. A regulatory agency is more likely to respond to negative public judgments or mixed, both positive and negative, public judgments.

Following up on recent empirical studies that analyze reputation as a multi-dimensional concept (Capelos *et al.* 2016; Christensen & Lodge 2018; Busuioc & Rimkutė 2020; Rimkutė 2020a; Boon *et al.* 2021), we expected patterned responses, according to the reputational dimension, targeted by public judgments. Those studies draw upon Carpenter's (2010b) four reputational dimensions that regulatory agencies may choose to cultivate. These include the effective achievement of a regulator's mission (*performative reputation*), compliance to rules and following due process (*procedural reputation*), commitment to ethical aspects, such as honesty and responsiveness to users' concerns (*moral reputation*), and organizational capacity and expertise (*technical reputation*). We theorized that some reputational dimensions are more important for regulatory agencies than others, leading us to expect patterned responses to public judgments.

A core claim regarding the multidimensionality of reputation is that tradeoffs exist between different reputational dimensions and that agencies will struggle to cultivate a favorable reputation across several (or even all) dimensions (Carpenter & Krause 2012). Potential barriers for a high-level reputation across all dimensions include problems with the attribution of performance to an agency or tradeoffs between procedurally correct but morally doubtful decisions (Busuioc & Lodge 2017). Tradeoffs between different reputational dimensions are exacerbated by the presence of multiple audiences who are likely to place different demands on regulatory agencies. Audiences may not only emphasize different reputational dimensions but may also hold different views concerning the same dimensions. Regulated banks may view a well-performing financial regulator differently than consumers. Consequently, "agencies must choose which reputational dimensions will receive priority and which will not" (Carpenter & Krause 2012, p. 27).

We argue that performative, procedural, and technical reputation are key dimensions for regulatory agencies, whereas moral reputation is a peripheral dimension (Busuioc & Rimkutė 2020). However, considering the focus of reputation theory on organizational uniqueness and ensuing reputational vulnerabilities, we maintain that our theoretical expectations about reputation management through communicative behavior need to be specified according to a regulatory agency's distinct reputational profile (Maor *et al.* 2013). Therefore, we developed general hypotheses about regulatory agencies' communicative behavior in this section and refined them based on our empirical analysis of BaFin's distinct reputational profile in the results section.

Literature on regulatory agencies highlights that a loss of democratic control over regulation as a result of delegation to independent bodies is motivated by more efficient regulation (Majone 1997). The main foundation of the legitimacy of independent regulatory agencies is their supposed ability to regulate effectively (i.e., to achieve their mandated mission). This puts the performative dimension at the center stage of regulatory agencies' reputation. To garner support among relevant audiences, regulators need a reputation for ensuring fair competition, safe foodstuffs, efficient medicines, and reliable electricity supply, to name a few. For financial regulators, in particular, ensuring the stability of financial institutions is a key element of performative reputation (Maor *et al.* 2013).

Another major argument for the delegation to independent regulatory agencies is to ensure time-consistent decision-making toward market actors (Levy & Spiller 1994). The delegation of decision-making powers to independent regulators is an important mechanism for creating credible commitment (Gilardi & Maggetti 2011). However, regulatory agencies are typically set up by statutory legislation, which defines their formal authority, and their decisions are typically bound by fine-grained, formal rules. The normative concept of "procedural legitimacy" (Majone 1997, p. 160) resonates closely with the empirical notion of procedural reputation. Accordingly, we suggest that the procedural dimension is another key aspect of regulatory agencies' reputational profile.[1]

Busuioc and Rimkutė (2020) suggested that a reputation as an expert body is another key reputational dimension of regulatory agencies. This argument resonates with the fundamental logic of delegation to regulatory agencies, which are first and foremost considered expert bodies, possessing "technical expertise which neither legislators, courts nor bureaucratic generalists presumably possess" (Majone 1997, p. 152). Busuioc and Rimkutė (2020) proposed a life cycle argument according to which agencies first prioritize the cultivation of technical reputation and subsequently broaden their "reputational portfolio" to include their performative and procedural reputations. Accordingly, regulators are likely to direct their efforts at cultivating a favorable technical

reputation as a *sine qua non* for being able to perform their mandated tasks. However, as argued above, whether this holds true for a specific regulator needs to be assessed on a case-specific basis.

Finally, we considered a moral reputation as a peripheral dimension for regulatory agencies. Busuioc and Rimkutė (2020) convincingly argued that the idea of protecting constituency interests or showing compassion for regulatees facing negative consequences as a result of agency decisions is difficult to reconcile with the notion of decision-making based on expertise and formal-legal procedures.

Our theoretical argument combines the assumed importance of reputational dimensions for regulatory agencies with several contributions that highlight the importance of agencies' "reputation reserves" (Gilad *et al.* 2015, p. 459) for assessing the significance of reputational threats. Maor *et al.* (2013) suggested that regulatory agencies are more likely to respond to public judgments in areas where they enjoy a weak or evolving reputation, whereas they will tend to remain silent if faced with public judgments in areas where they enjoy a strong reputation. In a similar vein, Gilad *et al.* (2015) theorized that agencies are more likely to admit the existence of a problem when facing public allegations targeting areas for which they have a poor reputation as opposed to areas where they have a more favorable reputation. Likewise, Rimkutė (2020b) argued that regulators with evolving reputations are more likely to respond to public allegations than regulators with strong reputations.

We modified those arguments by developing expectations about regulators' communicative responses to public judgments targeting different reputational dimensions, rather than distinct areas of activity.[2] We argue that a regulatory agency will consider its distinct reputational vulnerabilities when deciding whether to respond to public judgments or remain silent. The agencies' reputational vulnerabilities are directly related to the agency's own assessment of its reputational reserves (or, to use another analogy, its reputational capital) among relevant audiences (Maor *et al.* 2013; Gilad *et al.* 2015; Rimkutė 2020b). Building on this scholarship, we theorize that a regulatory agency is less likely to respond to public judgments targeting reputational dimensions for which it has a strong reputation, as opposed to reputational dimensions for which it has more mixed or weak reputations.

Finally, we combined our arguments about central and peripheral reputational dimensions for regulators with scholarship on communicative responses as either "regulatory talk" or "strategic silence" into the following theoretical argument: For reputational dimensions that are central to its mission and where a regulatory agency enjoys a favorable reputation, remaining silent is a viable strategy, as public judgments do not threaten the agency's overall reputation. Similarly, a regulator has little to lose by not responding to public judgments targeting reputational dimensions that are peripheral to its mission.

In contrast, for reputational dimensions that are central to its mission, and therefore for its autonomy and resources, and where a regulatory agency enjoys a weak reputation, we expect the agency to be more likely to respond to public judgments. An agency may try to shape public perceptions by presentational strategies, for example, by denying that a problem exists or explaining why a decision was made (Hood 2011). Moreover, communicative responses are not only a means of dealing with present-day public judgments, but they also define a standard against which an agency's future performance will be assessed (Maor *et al.* 2013) and may be considered as part of a regulator's anticipatory reputation management (Hinterleitner & Sager 2019). This is particularly relevant for reputational dimensions for which an agency currently has a comparatively poor reputation but which are central to its mission. Therefore, we proposed the following hypotheses:

H2a. A regulatory agency is more likely to respond to public judgments targeting its performative, procedural, or technical reputation if it enjoys a relatively weak reputation for those dimensions.

H2b. A regulatory agency is less likely to respond to public judgments targeting its performative, procedural, or technical reputation if it enjoys a relatively strong reputation for those dimensions.

H2c. A regulatory agency is less likely to respond to public judgments targeting its moral reputation.

The notion of reputation is closely linked to the audiences' assessment of regulators (Carpenter 2010b). Therefore, it is important to look at the source of a public judgment in addition to the reputational dimension that is targeted. As argued by Maor *et al.* (2013), the propensity of regulators to react publicly depends on whether (i) audiences have the power to influence a regulator's resources and mandate, either directly or

indirectly, and (ii) a regulator is able to establish a dialogue with audiences outside the public sphere (with the aim of discussing discontent behind closed doors). More specifically, they hypothesized (and found some empirical evidence) that regulators have a higher propensity to respond to public judgments by powerful actors and by actors with which a regulatory agency has a limited ability to start informal talks. For example, elected politicians can be considered to be both powerful and independent, whereas regulated industries can be considered powerful, as they are capable of engaging in collective action, but are dependent on good relationships with a regulator and thus likely to agree to informal talks.

Following this argument, we expect regulators to feel more pressure to respond to powerful audiences in order to maintain and nurture their bureaucratic reputation among these audiences and, ultimately, to ensure their autonomy and resource base. If possible, however, regulators will prefer to respond to public judgments in a non-public arena to avoid further conflict escalation in the public sphere. We expect that actors that depend on good relations with the regulator are more likely to agree to a private exchange with the regulator in a non-public context. Therefore, we are less likely to see public responses to public judgments by dependent audiences, even if the regulator has good reasons to react and does react behind closed doors. Based on this, and following Maor *et al.* (2013), we proposed the following hypothesis about a regulator's propensity to respond to different types of audiences:

> H3. A regulatory agency is more likely to respond to public judgments when audiences can exert power over it and when it enjoys limited control over the venue of negotiation with the audience.[3]

4. Case, data, and methods

The German financial regulator, BaFin, is an integrated regulator with responsibilities for three regulatory domains in a large developed economy. Its structure has remained largely unchanged since its creation in 2002, and it has faced different types of problems generating public attention. The establishment of BaFin marked the peak of a nearly six-year debate about how the state should respond to international financial market developments (Bach *et al.* 2019). The debate resulted in the merger of three semi-autonomous regulatory agencies (for banking, insurance, and securities) into an integrated regulatory agency (BT-Drs. 14/7033. *Entwurf eines Gesetzes über die integrierte Finanzdienstleistungsaufsicht [Finanzdienstleistungsaufsichtsgesetz]*). While the overall reform narrative focused on adjusting institutional structures to market developments (BT-Drs. 14/7033), the weak reputation of the regulatory regime and its poor performance also served as important reform arguments (Frach 2008). Furthermore, in the wake of the merger, BaFin gained an increasingly positive performative reputation among regulatees. In 2006, 40 percent of regulatees assessed BaFin's performance as having improved in comparison to its predecessors, and 45 percent stated that it had remained stable (Alvarez-Plata *et al.* 2006). The financial crisis of 2008 hit Germany hard, and BaFin received a fair share of the blame for insufficient regulatory responses. In the wake of the crisis, the government proposed a major restructuring of BaFin, but the reform was eventually abandoned, and BaFin instead received additional regulatory powers (Handke & Zimmermann 2012).

The regulator has faced several major challenges since its creation. Most importantly, BaFin was accused of contributing to regulatory failure during the financial crisis. In addition, BaFin has continuously struggled to recruit highly qualified staff, primarily due to lower pay levels relative to the financial industry (Handke & Zimmermann 2012). Moreover, prior to the financial crisis, the regulator faced a scandal related to corrupt procurement practices (Bach *et al.* 2019). Finally, BaFin shares responsibilities in banking regulation with the central bank, an institutional arrangement that has regularly been criticized by regulatees, who state the institutions do double work and have unclear responsibilities (Alvarez-Plata *et al.* 2006). The division of responsibilities between BaFin and the central bank was also a key issue in the (failed) restructuring of BaFin, during which both institutions engaged in turf politics to keep (BaFin) or expand (central bank) their formal powers (Handke & Zimmermann 2012).

In sum, we considered BaFin a well-suited case for reputational analysis of regulators' communicative behavior in response to public judgments. As an integrated regulator, BaFin has multiple tasks and audiences and, therefore, faces tradeoffs in how to prioritize different reputational dimensions, which is a key aspect of

bureaucratic reputation management (Carpenter & Krause 2012; Maor 2015; Busuioc & Rimkutė 2020). BaFin has faced multiple challenges that resulted in publicly visible allegations addressing different aspects of its activities (i.e., regulatory failure, procurement scandal, recruitment problems). Moreover, BaFin's main tasks have remained stable since its creation, thus excluding potentially confounding explanations. Finally, studying BaFin contributes to strengthening the external validity of existing research on regulators' communicative responses to reputational threats, which primarily focuses on regulators in the United States, Israel, and the European Union.

To analyze the regulator's responses to public judgments, we built a database of newspaper articles covering BaFin. We used the *Frankfurter Allgemeine Zeitung* (FAZ), which is one of Germany's leading quality newspapers with a dedicated focus on economic topics. We collected all articles that mention BaFin (or the financial supervisory authority) in the title or text between 2002 and 2016; this resulted in a total of 4,312 articles.[4] Then, we selected all articles ($N = 710$) containing a judgment or opinion about BaFin. Finally, all articles were coded by one of the paper's authors and an assistant. They both coded 151 articles out of the complete corpus of articles, with an acceptable intercoder reliability between 0.7 and 0.8 (Krippendorf's α) for the direction of opinions and reputational dimensions.[5]

The unit of analysis was the single article, which was slightly different from Maor *et al.* (2013), who used single judgments as units of analysis. Hence, in our analysis, a single article may contain multiple reputational dimensions – positive, negative, and neutral opinions, and multiple audiences as opinion sources. The outcome was a binary variable indicating whether an article contains an explicit response put forward by BaFin ("1") or not ("0"). We defined a response as any action that directly referred to a judgmental opinion within the article in question; the action may have been an explicit statement or denial of a comment or policy action by the agency.[6] BaFin responded in 101 of the total 710 articles (about 14 percent). This result was similar to the findings of Maor *et al.* (2013) in that most articles lacked an explicit response by the regulator. We used descriptive statistics and logistic regression to assess the effect of the independent variables on the regulatory agency's propensity to react to public judgments.

We distinguished between opinions targeting the regulator's performative, technical, moral, and procedural reputation, using a codebook developed by Boon *et al.* (2021). We operationalized those dimensions as follows: the performative dimension included opinions on the quality, efficiency, and effectiveness of the regulators' activities, as well as the regulator's prioritization among different activities. The technical dimension referred to whether the regulator had the necessary expertise, capacity, or skills to perform its tasks in a competent way. The moral dimension addressed whether a regulator behaved morally and ethically, which included the protection of stakeholder interests, compassion, and flexibility toward regulatees that were adversely affected by the regulator's decisions, adherence to fundamental values, such as transparency and responsiveness to citizens, and the absence of abuse of office. The procedural dimension referred to the regulator's compliance or non-compliance with formal rules, norms, and procedures in its decision-making, including both external rules, such as statutory law and government regulations, and internal rules.

We used several measures to address ambiguous or potentially overlapping opinions. In order to ensure consistent coding, several authors piloted the codebook by coding multiple articles and comparing and discussing the results. In addition, the coders discussed uncertain cases on a continuous basis until they reached an agreement. Moreover, for each reputational dimension, the codebook included a comprehensive list of examples and instructions for the coding of ambiguous opinions. Finally, our approach allowed for the coding of multiple dimensions per article, which reduced the coder's discretion in the identification of dominant dimensions. For instance, an article about corrupt procurement practices was coded as a moral threat, as this exemplifies unethical behavior, but might simultaneously be coded as a procedural threat if non-compliance with existing rules was explicitly mentioned. This example also illustrates that distinguishing between the moral and procedural dimensions can be challenging as formal rules will often reflect moral norms (Fink & Ruffing 2020). To address this concern, we explicitly defined the procedural dimension as the absence or adherence to following rules and the moral dimension as the absence of or compassion for regulatees, as well as flexibility and transparency.

For the direction of the opinion, which we coded following the same codebook, about 65 percent of the articles were negative, 25 percent were positive, and the rest were mixed, meaning that articles included both negative and positive opinions about actions or non-actions, programs, policies, or intentions of the regulator, including single departments and employees. To qualify as a negative (positive) opinion, the coding rules required
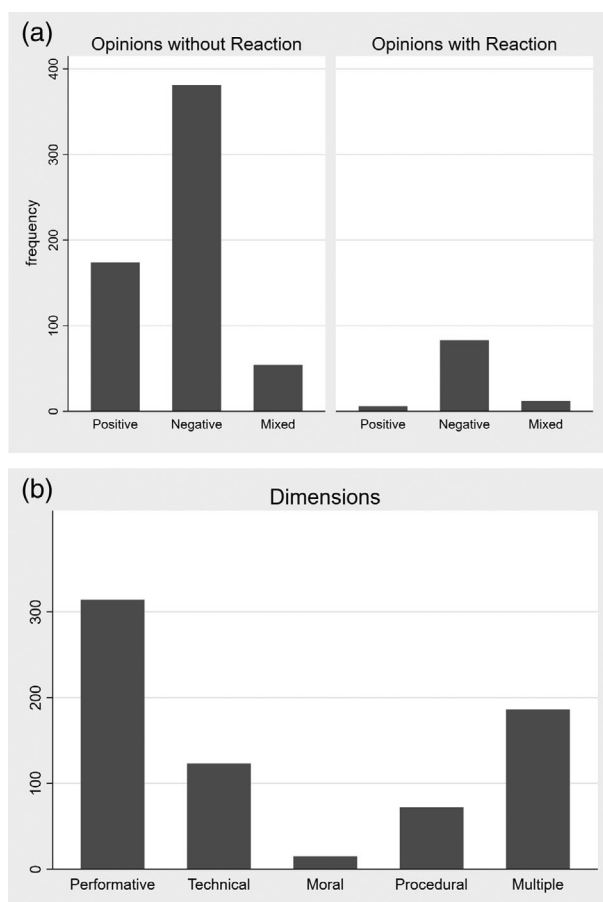
Figure 1 Frequencies of article opinions by reaction and frequency of dimensions.

an explicit negative (positive) wording or framing.[7] A graphical overview of the data by reputational dimension, direction of opinion, and reaction can be found in Figure 1.

For the source of the opinion, we coded dummy variables for 17 potential audiences, including governmental actors, private firms, non-governmental organizations (NGOs), experts, and international actors. We grouped these sources into one of the following categories: (i) powerful and independent (mainly political actors and the media); (ii) powerful and dependent (including private companies, which are potentially regulated by BaFin, and former or present employees of BaFin); (3) weak and independent (weakly organized actors, such as experts, NGOs, and citizens); and (4) other (= not explicit). For media salience of BaFin in a given period, we recorded the number of all articles published about BaFin in the respective month. Finally, we included the year in which the article was published to control for potential time effects.

5. Analysis

Table 1 cross-tabulates the overall opinion of the article and the reputational dimensions addressed. We used the dominant direction of opinion and the relative number of opinions as the empirical foundation to elaborate our theoretical expectations (H2a, H2b, H2c) based on BaFin's reputational profile. According to our theoretical framework, we considered performative, procedural, and technical reputations as central dimensions for regulatory agencies' missions. This expectation was borne of the relative frequencies of articles containing opinions about different reputational dimensions, where only a small proportion of articles addressed the moral dimension (see also Fig. 1). The descriptive analysis of the newspaper articles further suggested that BaFin had relatively weak performative and procedural reputations, as indicated by predominantly negative opinions, whereas negative and positive opinions were on fairly similar levels for its technical reputation.[8] Therefore, we expected BaFin

Table 1 Reputational dimension by direction of opinion

		Opinion			
		Positive	Negative	Mixed	Total
Dimension	Performative	23.3% (73)	71.0% (223)	5.7% (18)	100% (314)
	Technical	44.7% (55)	49.6% (61)	5.7% (7)	100% (123)
	Moral	26.7% (4)	73.3% (11)	0% (0)	100% (15)
	Procedural	31.9% (23)	65.3% (47)	2.8% (2)	100% (72)
	Multiple	13.4% (25)	65.6% (122)	21.0% (39)	100% (186)
	Total	25.4% (180)	65.4% (464)	9.3% (66)	100% (710)

$\chi^2(8) = 74.71$; $P < 0.001$. Cell entries are row percentages (frequencies in parentheses).

to display a higher propensity of communicative responses for public judgments targeting the performative and procedural dimensions and a lower propensity to react to judgments on technical aspects. Following our theoretical expectations and judging by the number of articles, the moral dimension was clearly peripheral, and we, therefore, expected BaFin to display a lower propensity to react to judgments addressing the moral dimension.

Table 2 reports the results of the logistic regression models estimating the effect of the concerned reputational dimension and the type of actor who raised an opinion on BaFin's tendency to react. As one article may contain more than one dimension and opinion source, we included a dummy variable for each dimension and opinion source and, hence, had no baseline categories in our models. Table 2 shows coefficients from the logistic regression models with standard errors, as well as odd ratios that facilitate interpretation. In addition, odds ratios were plotted in Figure 2.[9] As suggested by H1, the probability of a response was significantly higher in the face of threats or mixed opinions than positive opinions. Specifically, the odds ratio in model 1 indicates that BaFin was about 6.1 times more likely to react when faced with negative opinions compared to positive opinions (the reference category) and about 5.0 times more likely to respond to mixed opinions relative to the reference category, with all other variables held constant. These findings are in line with the results of Maor *et al.* (2013) who used a similar methodology.

Model 1 further shows that the probability of a response by BaFin to opinions on the performative dimension was about 1.9 times higher compared to opinions not touching on the performative dimension (holding opinion type, year, and salience constant). Likewise, BaFin was about 2.4 times more likely to respond to a judgment targeting its procedural reputation. Those findings are consistent with H2a. In contrast, BaFin's propensity to react did not significantly increase in the face of technical and moral threats. These observations are fully in line with H2b and H2c.

In terms of the sources of opinion, our analysis showed that public judgments by powerful and independent actors increase the regulators' propensity to react. For the other two categories, we found that public judgments by powerful and dependent actors increased the regulator's propensity to react even more than judgments by powerful and independent ones. This suggests that the "power" aspect of H3 is more important than the "independence" aspect. When we disentangled the "powerful and independent" group into its constituent actors (model 3), only the categories government, government parties, other public organizations (e.g., the courts, the Federal Audit Office, or the Central Bank), and international political actors (e.g., the European Commission) had a significant effect. The result for the "powerful and dependent" group (model 2) was instead driven by former and present employees (model 3), the actor type with the strongest effect on the agency's propensity to react. A closer look at the articles behind the data suggests that BaFin reacts to public judgments by former and present employees because it tends to agree with the source of the opinion. Taken together, our analysis provides tentative support for H3, corroborating the findings of Maor *et al.* (2013) in another politico-administrative context.

6. Discussion

The empirical analysis demonstrates that a regulatory agency reacts differently to public judgments targeting different reputational dimensions. We showed that BaFin prioritizes public responses to judgments targeting its
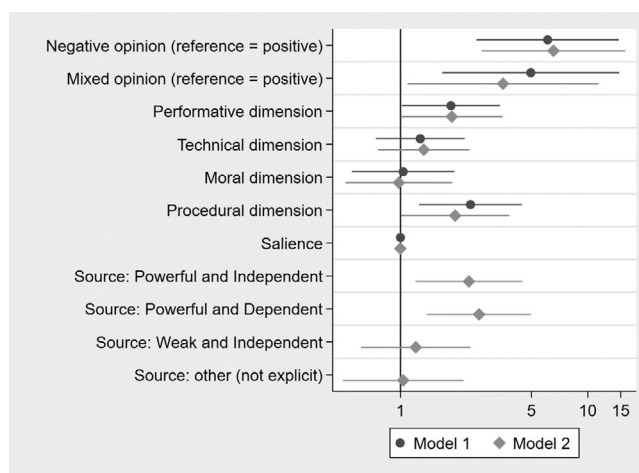
Table 2 Logistic regressions of BaFin's tendency to respond to opinions

	Model 1		Model 2		Model 3	
	Coefficient	OR	Coefficient	OR	Coefficient	OR
Opinion type (reference = positive)						
Negative	1.809*** (0.446)	6.102	1.881*** (0.451)	6.557	2.229*** (0.502)	9.289
Mixed	1.602*** (0.555)	4.961	1.261** (0.599)	3.528	1.256* (0.646)	3.513
Dimension						
Performative	0.620** (0.308)	1.859	0.630** (0.320)	1.877	0.735** (0.345)	2.086
Technical	0.243 (0.279)	1.275	0.286 (0.287)	1.332	0.200 (0.308)	1.222
Moral	0.0323 (0.321)	1.033	−0.0207 (0.335)	0.980	−0.0127 (0.357)	0.987
Procedural	0.860*** (0.323)	2.363	0.672** (0.339)	1.959	0.685* (0.362)	1.985
Opinion source (grouped)						
Powerful and Independent			0.841** (0.335)	2.318		
Powerful and Dependent			0.966*** (0.326)	2.626		
Weak and Independent			0.188 (0.343)	1.207		
Other (=not explicit)			0.0331 (0.378)	1.034		
Opinion source (detailed)						
Several political actors, media, citizens, experts, interest groups					Included (but not significant)	
Government (whole or members)					1.791* (0.977)	5.995
Government party					1.651** (0.772)	5.211
Political actor other level					1.558** (0.764)	4.751
Other public organizations					1.023** (0.421)	2.783
Private company					0.701** (0.353)	2.016
International political actor					1.759** (0.781)	5.806
Former or present employee					2.601*** (0.534)	13.48
Salience	−0.001 (0.012)	0.999	−0.002 (0.013)	0.998	−0.002 (0.013)	0.998
Year-fixed effects	Yes		Yes		Yes	
Constant	−4.953*** (0.958)	0.007	−5.700*** (1.030)	0.003	−6.248*** (1.095)	0.002
Observations	710		710		709	
Log likelihood	−258.90		−250.30		−237.17	
LR chi-square	$\chi^2(21) = 63.0$***		$\chi^2(25) = 80.2$***		$\chi^2(37) = 106.2$***	
Pseudo *R*-squared	0.108		0.138		0.183	

*$P < 0.1$; **$P < 0.05$; ***$P < 0.01$. Entries are unstandardized logistic coefficient estimates with standard errors in parentheses. For each model, odd ratios (OR) are reported in a second column. Model 3 includes several more dummy variables for disaggregated opinion sources (see descriptive statistics), but only the ones with significant effects are shown here.

performative and procedural reputations, which are relatively weak, while neglecting judgments regarding its technical reputation, which is neither weak nor strong. Moreover, we find that BaFin does not prioritize public judgments targeting reputational dimensions that are peripheral to its mission. This is an important contribution to the existing literature, which has studied a single agency's communicative responses to public judgments targeting different tasks within the same regulator (Maor *et al.* 2013; Gilad *et al.* 2015), a single agency's communicative responses to contextual uncertainty (Carpenter 2010a; Moschella & Pinto 2019), several agencies' communicative responses to similar allegations (Rimkutė 2020b), and agencies' emphasis of reputational dimensions in their communications (Christensen & Lodge 2018; Busuioc & Rimkutė 2020; Rimkutė 2020a).

Our analysis expands this literature by focusing on communicative responses to public judgments addressing different reputational dimensions. Thereby, we added a novel element to a growing body of empirical literature explicitly focusing on the dimensional nature of bureaucratic reputation (Boon *et al.* 2021). Moreover, we proposed a

Figure 2 Odd ratios from logistic regressions of BaFin's tendency to respond to opinions. Note: Odd ratios shown on a logged scale and with 95% confidence intervals. Year-fixed effects and constants were included in the models but are not shown here.

general theoretical argument about the importance of different reputational dimensions for regulatory agencies that simultaneously considers regulators' distinct reputation reserves. This will allow other researchers to test the validity of our assumptions for other cases. In addition, the explicit focus on reputational dimensions in our theoretical argument has a greater potential for generalization across multiple cases compared to earlier works because it potentially applies to both single- and multi-task agencies. The study by Maor *et al.* (2013) rests on the assumption of a unified regulator – "one whose mandate involves more than one core function" (p. 582). However, single-task regulatory agencies may also face tradeoffs in deciding which reputational dimensions to prioritize (Rimkutė 2020b).

Theories of bureaucratic reputation management revolve around agencies' strategic behavior to shape multiple audiences' beliefs about agencies' distinct characteristics (Wæraas & Byrkjeflot 2012). We theorized that an agency's communicative behavior will depend on its distinct reputation profile, and we distinguished between strong and weak reputations for different reputational dimensions. In empirical terms, we deduced the regulatory agency's reputational profile from descriptive data on the balance of positive and negative opinions of reputational dimensions. This presumes that such aggregate data capture a latent pattern and reflect multiple audiences' public judgments about the agency. Although we see merit in using desk research to assess a regulatory agency's reputation across functional areas (Maor *et al.* 2013; Gilad *et al.* 2015), we propose that future research should broaden its methodological repertoire for assessing agencies' reputational profiles, for example, through media analysis (as suggested in the present article), expert interviews, or stakeholder surveys.

More generally, bureaucratic reputation scholarship has paid only limited attention to audiences and how they form expectations about agencies (Boon *et al.* 2021), how reputation shapes regulatory compliance (Capelos *et al.* 2016), and whether audiences are able to identify and attribute policy decisions to agencies' intentional behavior (Maor 2020). This gap in the literature must be addressed through carefully crafted analyses that are able to isolate the effects of agency's intentional behavior, such as experimental studies on the effects of promotional symbols (Alon-Barkat & Gilad 2017) or decision transparency (Grimmelikhuijsen *et al.* 2021) on citizens' attitudes toward regulatory agencies.

Like any empirical study, our analysis has limitations that need to be explicitly identified. We conducted a single-case study of an integrated financial regulator in a large European economy, a fact which could raise questions about the study's external validity. Considering that our empirical analysis corroborates essential elements of a comparable study in a different context (Maor *et al.* 2013), we are confident about the validity of our empirical findings for financial regulators in particular.[10] That being said, we are more hesitant in claiming empirical validity of our findings for regulators beyond this specific sector, echoing a recent critique by Carpenter (2020) who warns against "overly generalized comparisons" in the analysis of agency reputation and urges researchers to focus on "a select subset of agencies and managers" (p. 92). Moreover, scholars of bureaucratic reputation

management are well-advised to consider the nature of agencies' primary tasks, which has been demonstrated to affect how agencies prioritize reputational dimensions when they publicly account for their activities (Christensen & Lodge 2018; Rimkutė 2020a). Further empirical research could assess the validity of our theoretical argument for other sectoral regulators, for regulators with cross-sectoral responsibilities, and for agencies with non-regulatory functions.

The study of regulatory agencies' communicative behavior through systematic media analysis involves several methodological choices that require further elaboration. We used newspaper articles as the unit of analysis, published in one newspaper, and we coded both judgments and agency reactions in those articles. This approach followed earlier research (Maor *et al.* 2013; Gilad *et al.* 2015) but comes with some obvious caveats. Similar to earlier research, we presumed that newspaper articles would consistently report the agency's responses to public judgments. Put differently, if an article contained no response by the agency, we implicitly presumed that journalists worked diligently and contacted the agency to achieve a balanced view of the matter at hand, but the agency deliberately chose not to react (see also Maor *et al.* 2013).

Another concern is related to the timing of responses. The agency may have responded several days after the initial publication of an opinion, which would not be captured by our coding approach. However, Maor *et al.* (2013) demonstrated that even if news reporting on agency responses was delayed, articles would routinely reiterate the initial opinion. Moreover, the timing of responses itself could be the result of strategic considerations to cultivate a favorable reputation (Carpenter 2002). Future research could concentrate on a selected number of salient episodes and track the agency's reaction to public opinions, including not only newspaper reporting but also alternative sources of information, such as press releases or speeches of agency heads, to circumvent potentially biased reporting in news media. In addition, researchers might explicitly consider the timing of responses, which is an established approach in studies of blame avoidance management (Hood *et al.* 2016; Bach & Wegrich 2019). However, such an approach also comes with tradeoffs, such as the criteria for selecting episodes and potentially lower numbers of observations. Another potentially fruitful research strategy involves a qualitative comparison of regulatory agencies' communicative responses to major reputational threats (Rimkutė 2020b).

Moreover, agencies may respond to reputational threats not only through communicative behavior but may "use a repertoire of reputation protection strategies" (Maor 2020, p. 7) in addition to or as alternatives to strategic communication, including the timing of decision-making (Carpenter 2002), changes to agency outputs (Maor & Sulitzeanu-Kenan 2016), task prioritization (Gilad 2015), the use of advisory committees (Moffitt 2010), and stakeholder consultations (Fink & Ruffing 2020). In a comparative case study, Rimkutė (2020b) demonstrated how a regulator with a strong reputation responded to severe public allegations with strategic silence and instead deliberately "focused on conducting its core mandates and exercising its regulatory powers" (p. 1649), whereas regulators with an emerging reputation responded through extensive communication. This finding suggests that a regulator's choice from a menu of alternative strategic responses is driven by that regulator's existing reputation among relevant audiences. In addition, a regulator's choice regarding which reputational dimension to emphasize has been shown to depend on its organizational capacity (Fink & Ruffing 2020). In other words, some reputational strategies are more resource intensive than others, which subsequently influences agencies' prioritization of responses to reputational threats.

The present paper's theoretical argument suggests that strategic responses to reputational threats, communicative or otherwise, are likely to be contingent upon the centrality of the reputational dimension under threat to the regulator's mission. We showed that regulators are less likely to respond to public allegations targeting peripheral reputational dimensions through communicative action, but a different research design would be required to systematically assess whether a regulator might deploy other reputational strategies in response to such allegations. Moreover, in our single case study, we were unable to gauge the effect of organizational resources on agency responses to public judgments. Those are promising avenues for future research on bureaucratic reputation management.

7. Conclusion

This paper draws on a single-case study and systematic media analysis to study how an integrated financial regulator strategically employs communicative responses to public judgments on four reputational dimensions. We

developed and tested a novel theoretical argument according to which regulatory agencies exhibit differential communicative responses to reputational threats depending on whether a reputational dimension is central or peripheral to their mission, whether the agency holds strong or weak reputations for the different dimensions, and depending on the audience from which the reputational threat originates. Our theoretical argument builds upon several important contributions to the literature on bureaucratic reputation and blame avoidance behavior, including the distinction between reputational dimensions (Carpenter & Krause 2012), the relative importance of different reputational dimensions depending on agency type (Busuioc & Rimkutė 2020; Rimkutė 2020b), the distinction between different types of communicative responses (Maor *et al.* 2013; Gilad *et al.* 2015; Maor 2020), and the distinction between core and non-core reputational concerns (Busuioc & Lodge 2017). Through developing and empirically testing a general theoretical argument for explaining regulatory agencies' differential communicative responses to reputational threats, we particularly contributed toward the consolidation of scholarship on the dimensional nature of bureaucratic reputation.

The existing literature on reputation management through communicative behavior embraces the notion of strategic behavior by public organizations. This view considers communicative responses as resulting from a deliberate "agency calculus" (Gilad *et al.* 2015, p. 454). The implicit assumption underlying this claim is that agency leaders tightly control communicative behavior in the light of reputational implications. Some studies explicitly address the communication behavior of agency leaders (Bækkeskov 2017; Moschella & Pinto 2019), whereas the present paper and related works (Maor *et al.* 2013; Gilad *et al.* 2015) use proxy measures of leadership decisions. This uncertainty about the deliberate nature of communicative responses calls for future research that looks inside the black box of organizational decision-making, using a broader array of methodological approaches, such as participant observation and ethnography (Bækkeskov 2017; Carpenter 2020).

Acknowledgments

Data availability statement
The data that support the findings of this study are available from the corresponding author upon reasonable request.

Endnotes

1   In their analysis of EU-level agencies, Busuioc and Rimkutė (2020) argued that the procedural dimension is essential for what they call "decision-making agencies" that "apply general rules to specific situations" (p. 554). This description generally applies to national-level regulatory agencies.

2   The phrasing of our hypotheses draws on Maor *et al.* (2013) and Gilad *et al.* (2015) yet modifies them by considering multiple reputational dimensions.

3   Maor *et al.* (2013) formulated a substantially similar hypothesis but used the regulator's propensity to remain silent as the outcome variable.

4   The exact search term was "BaFin" OR "Finanzdienstleistungsaufsicht."

5   Moreover, one author coded a selection of articles on financial regulation in the United Kingdom with coders from two other countries for a comparative analysis, with similar levels of intercoder reliability (Bach *et al.* 2019).

6   Maor *et al.* (2013) did not include denials of comments or policy actions into their response category. That being said, these categories only applied to a small number of cases in our dataset.

7   The operationalization of the direction of an opinion did not distinguish between more or less negative (positive) judgments or more or less important issues. In our theoretical model, we distinguished between central and peripheral reputational dimensions, which reflects the agency's reputational vulnerabilities and the importance of an opinion. Moreover, we controlled for the overall media salience of the agency, which we assumed to be higher in times of more critical judgments, reflecting the severity of the opinions.

8   The measurement of BaFin's reputation through newspaper reporting is an approximation of the relative importance and strength of the regulator's reputation among key audiences. We assumed that (i) the frequency of opinions per dimension was indicative of the importance that audiences attach to each dimension and (ii) the balance of threats and endorsements per dimension was indicative of the perceived strength (weakness) of that dimension among key audiences. We further reflect on those assumptions in the paper's discussion section.

9   To plot odds ratios, we used the "coefplot" command in Stata (Jann 2014).

10 More specifically, we were able to replicate their findings that negative and mixed opinions, as well as opinions raised by powerful and independent actors, increase a regulatory agency's propensity to react.

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