# Regulatory misbehaviour and reputational consequences. An experimental study on how reputational threats affect audience perception of the European Banking Authority's multidimensional reputation.

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# REGULATORY MISBEHAVIOUR AND REPUTATIONAL CONSEQUENCES.

## An experimental study on how reputational threats affect audience perception of the European Banking Authority's multidimensional reputation.


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# 1. Introduction

"*The lesson of this scholarship is that, when trying to account for a regulator's behavior, look at the audience, and look at the threats*." (Carpenter, 2010a, p.832)

In recent years, many studies have attempted to gain thorough understanding of why European regulatory agencies behave the way they do. One of the studied behaviours is how European regulatory agencies react and behave when they face reputational threats (Maor, 2011; Maor, Gilad, & Bloom, 2012; Maor & Sulitzeanu-Kenan, 2015; Rimkutė, 2018; Rimkutė, 2020b). However, while agency behaviour in relation to reputational threat is studied thoroughly, the effect of reputational threats on agency-audiences perception remains neglected (Bustos, 2021; Maor, 2016). This study aims to explore the effect of reputational threats, in the form of various external criticisms, on agency-audience perception of organizational reputation. To do so, experiments are conducted among randomly assigned treatment groups to test for causal effects of external criticism on audience's perception of organizational reputation. The European regulatory agency that is studied is the European Banking Authority. The experiments are conducted using a student sample.

Organizational reputation is a valuable asset to many regulatory agencies as Carpenter's (2010) seminal work on the American Food and Drug Administration illustrates. His work also highlights that cultivating organizational reputation is essential for regulatory agencies to secure authority and power beyond formal fiat. As is established by Carpenter & Krause (2011) Organizational reputation has four dimensions; performative, technical, moral and legal-procedural reputation. The dimensions of reputation do not move in unison and therefore audiences may judge one specific dimension as good while the other is judged to be falling short. The audience perceives the organization and passes judgement on its reputation. As audiences can differ widely in nature, expectations and goals their perceptions of an organization's reputation will also differ widely (Carpenter, 2010b).In the decades following Carpenter (2010b) seminal work, the lens of reputation has become very influential in the study of regulatory organizations. Its relevance and applicability has been demonstrated empirically in the context of a wide array of agency behaviours (e.g., Busuioc & Rimkutė, 2019a; Busuioc & Rimkutė, 2019b; Gilad, 2008; Maor, Gilad, & Bloom, 2012; Rimkutė, 2020a; Rimkutė, 2020b; Van der Veer, 2020). And although the influence and explanatory power of the reputational lens has been demonstrated well in studies on American organizations, Carpenter (2010b) argues that the lens remains neglected in the European context. A core concept to the reputational lens is the audience.

However, the European regulatory state and European agencies have seen a sharp increase in theoretical and empirical contributions in recent years (Busuioc, 2013; Groenleer, 2009, Rimkute, 2021). Several different theories have been employed to explain the institutional design (Kelemen & Tarrant, 2011), control mechanisms employed to oversee day-to-day activities (Busuioc, 2013). Moreover, recent works have contributed to further the academic understanding of agency ties with interest groups and other stakeholders (Arras & Braun, 2017). However, despite this outpouring of contributions, the reputational lens has been largely neglected to study European regulatory agencies (Busuioc & Rimkutė, 2019). This study aims to further test the explanatory power of the reputational lens in the European regulatory context. In addition, instead of testing a general concept of reputation, a novel approach is taken. This study employs a multidimensional tool to measure the dimension of organizational reputation separately. Furthermore, instead of focussing on how agencies behave this study will focus on the perspective of the audience.

The European Banking Authority, along with the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority are all European regulatory agencies that are part of the European System of Financial Supervision (ESFS). The European System of Financial Supervision is an overarching organization for financial regulation in the EU. It is important to note that the European Banking Authority (further referred to as the EBA) is the only subject of this study.

This study will test three hypotheses. The first hypothesis expects that respondents whom receive a treatment of external criticism will have a lower overall perception of the EBA's organizational reputation compared to the control group. The second hypothesis expects that when respondents receive a treatment of external criticism targeted specifically at the core tasks of the EBA, they will have a lower perception of the EBA's performative reputation compared to the control group. The third hypothesis expects that when respondents receive a treatment of external criticism targeted specifically at the secondary tasks of the EBA, they will have a lower perception of the EBA's moral reputation compared to the control group. To gather data, surveys will be conducted among students of the Leiden University.

The results show that when the EBA faces external criticism, audiences will not always lower their overall perception of the EBA's reputation. However, specific dimensions of reputation can be affected by targeted criticism. The results also indicate that affecting the actually

targeted dimension is not always simple. Treatment 2, targeted at the moral dimension, is found to affect the legal-procedural dimension instead.

## 1.1 Research question

This study will explore the relationship between external criticism and agency-audience perception on the organizational reputation of the EBA. In doing so, this study will answer the following question:

*'How does external criticism affect the European Banking Authority audience's perception of organizational reputation? And to what extent can specific dimensions of reputation be affected by external criticism?*'

To answer this question, a theoretical framework will be provided. The framework will cover relevant literature concerning organizational reputation. This framework is the fundament from which the hypotheses are formulated. To test the hypotheses, an experiment amongst a student sample will be conducted. They will be requested to fill in a survey to gather data needed for the analysis. The respondents will be randomly assigned to either one of the two treatment groups or the control group. The treatments groups will be manipulated with external criticism targeted at either the core or secondary tasks of the EBA. The control group will receive neutral feedback with general information on the EBA. Subsequently, using the results from the survey, statistical analysis will be conducted. The hypotheses will be tested by employing two sample t-tests, general ANOVA and a post hoc test. The results will be discussed and conclusions will be drawn. Finally, limitations of this study and recommendations for future research will be formulated.

## 1.2 Relevance

This study aims to start filling the knowledge gap regarding European regulatory agency audience behaviour following reputational threats, and provide a stepping stone for future research. In this section, the current gaps in knowledge will be highlighted and the relevance of this study will be explained for the academic level as well as the practical level.

### 1.2.1 Academic Relevance

This study will contribute academically in three ways. First, it will expand contemporary knowledge by studying European regulatory agencies using the reputational lens. Second, it will focus on the agency-audience, this is an important aspect of organizational reputation but is largely neglected in current studies. Third, it will apply a novel approach in measuring the

dimensions separately using an experimental design instead of employing a general concept of organizational reputation.

First, employing the reputational lens in the European context. The study of public administration through the reputation-based perspective is nothing new under the sun. Its explanatory power for several different performance indicators, internal processes and organisation behaviours has been established in American regulatory agencies. It seems however that the perspective is understudied in their European counterparts. As its proponents argue, the lens has potential to provide crucial insights in the European regulatory state (Busuioc & Rimkutė, 2019; Carpenter, 2001; Carpenter, 2010b; Christensen, Lægreid, & Røvik, 2020; Overman et al., 2020). By employing the reputational lens, its explanatory power in the European regulatory context is further tested.

Second, shifting the focus from the agency to the audience. The audience is a central concept in understanding and studying organizational reputation and they play a role in shaping agency behaviour (Carpenter & Krause, 2011). So while they play an important role, they are understudied (Bustos, 2021; Maor, 2016). This study will contribute to furthering contemporary understanding of agency-audiences and how they perceive an European regulatory agency. It will test novel theoretical propositions using an experimental design to test the effect of an agency facing reputational threats on a student audience's perception of organizational reputation.

Third, employing a multidimensional tool to measure organizational reputation. While the multidimensionality of organizational reputation has been clearly defined by Carpenter & Krause (2011) some time ago, the multiple dimensions remain understudied empirically. This study employs a measure that allows for measurement of three of the four different dimensions as formulated by Carpenter & Krause (2011), sticking to their definitions as closely as possible. The measures are derived from the studies by Overman et al. (2020) and Lee & Van Ryzin (2018).

### 1.2.2 Practical Relevance

When regulatory agencies misbehave, are they punished? Or do they get away? How much can they get away with before agency-audiences lose faith? These are all practical questions to which this study aims to, to some extent, find answers.

As Busuioc & Rimkutė (2019) point out, audiences have diverse expectations of European regulators. They pay attention to different aspects of reputation and thus European regulators need to be able to cultivate the different aspects vis-à-vis different audiences. As regulatory agencies misbehave, some audiences might not care as they have different goals. Some acts of misbehaviour may not be major enough for audiences to lose faith or may be of a nature that audiences will not punish the agency. It is important to understand how audiences react to regulatory agencies that face reputational threats to see if said agencies can get away with misbehaviour. Moreover, with what kinds of misbehaviour can European regulatory agencies (not) get away? This study has practical relevance as it aims to examine if an agency will actually suffer reputational damage amongst an audience if it fails in its tasks or if it misbehaves.

## 1.3 Structure of the thesis

The chapter above has introduced the subject of organizational reputation and its challenges and concepts were, briefly, explained. It has highlighted the need of exploring the audience perspective of the agency reputation's separate dimensions. Furthermore, the subject of this study, the European Banking Authority, and its regulatory background has been briefly introduced. Subsequently, the research question of this study has been presented and explained. Lastly, the academic and practical relevance of this study has been illustrated by highlighting the gaps in contemporary knowledge.

To pursue the answer to the research question, it is important to gain an understanding of organizational reputation and reputational threat in relation to European regulatory agencies. In chapter 2, the organizational reputation and reputational threats literature will be extensively discussed and applied to the case of this study. Chapter 2 will provide an understanding to what organizational reputation consists of and what aspects of reputation are perceived and valued by audiences. Subsequently, hypotheses will be drafted from the theoretical framework and will be introduced. In chapter 3, the methodology of this study will be discussed. Here, choices for the design of the research with regards to the sampling method, sample, experiment, treatments, measurements of variables and analytical method will be presented and justified. In chapter 4, the descriptive statistics as well as the results of statistical test will be analysed. In chapter 5, the results are thoroughly discussed. In chapter 6, conclusions are drawn. Finally, in chapter 7, limitations of this study and recommendation for future research are formulated.

# 2. Theoretical framework

The theoretical framework consists of three parts. The first part will introduce and discuss organizational reputation. In addition, the four dimensions of organizational reputation as formulated by Carpenter & Krause (2011) are discussed here. The second part will introduce and conceptualize reputational threats. The third part will build upon the first two parts of this chapter. Here, the relationship between organizational reputation and reputational threats and its effects on audience perception will be hypothesized.

## 2.1 Organizational reputation

What constitutes an organizations' reputation? According to Carpenter (2010), a reputation is composed of a set of symbolic beliefs. Those beliefs are images that represent the organization's history, intentions, mission and capacities (Carpenter, 2010b). The images are perceived by audiences. The concept of audience is critical to the reputational lens. Carpenter (2010, p.33) provides the following definition: *"An audience is any individual or collective that observes a regulatory organization and can judge it."* (Carpenter, 2010b, p. 33). Audiences are able to shape the regulator in two ways. First, audiences are able to weaken or empower the regulator with their behaviour. "*Audiences such as legislatures can grant authority to the regulator. Audiences such as firms and regulated individuals can convey power by obeying the regulator's rules and suggestions, or contest power by challenging those precepts. Audiences such as scientific and professional organizations, firms, and institutions of learning can grant conceptual power to the regulator by accepting the agency's definitions of technical terms and concepts."* (Carpenter, 2010b, p. 33). The audiences in this study can perceive the EBA and its behaviour and pass judgement. Based on their judgement, they can choose to obey the EBA or challenge the regulations they produce. Second, audiences can shape regulators because the regulators adapt to their audiences. E.g. regulators can adapt to the behaviour and rhetoric of audiences. This is done consciously as well as unconsciously in ways that are planned or not (Carpenter, 2010b). The patterns of reaction and anticipation to an audience can enable scholars to interpret and explain the behaviour of regulators.

However, it is important to note that the perception of one audience does not have to match the perception of another audience (Carpenter, 2010b). As perceptions differ, so do the judgments of audiences. For example, when a regulator projects an image of strict enforcement of rules, certain audiences may dislike the projection as they would have valued a more flexible

approach. However, other audiences may approve of the strict approach as it provides certainty. The same projection, therefore, may not be judged in the same way by different audiences.

So why is reputation so important? Reputation can be a resource beyond formal fiat. It can help an organization exercise authority, shape regulatory power and increase legitimacy (Carpenter, 2010b; Carpenter & Krause, 2011). Furthermore, the organizational reputation can affect government subjects by intimidating or emboldening them. By doing so, a reputation can help simplify the agencies' tasks or complicate them (Carpenter, 2010b). Also, reputation can provide a significant advantage over competitors for an organization. A good organizational reputation shows audiences and stakeholders that the organization is capable of creating added value for them and meet their needs (Fombrun, Gardberg, & Sever, 2000; Rindova, Williamson, Petkova, & Sever, 2005).

Inherent to organizational reputation is its multidimensionality. One can have a reputation for discipline among co-workers and have a reputation for effective work among clients. A reputation can thus be drawn on multiple bases and is not unidimensional. The fact that reputation draws on multiple bases is a result of the ambiguous nature of public goals (Carpenter, 2010b). The multidimensionality of organizational reputation is eloquently defined by Carpenter & Krause (2011). They state that reputation has four dimensions; the performative dimension, the technical or professional dimension, the legal-procedural dimension and the moral dimension. The novel measurement tool developed by Overman et al. (2020) that is employed in this study is able to measure three out of four dimensions of organizational reputation separately. It is therefore appropriate to explain and illustrate the dimensions to better understand the measurements formulated in chapter 3. The following section will do so.

### 2.1.1 Dimensions of reputation

First, the performative dimension. This dimension relies on the organization's ability to take action in an effective manner (Carpenter & Krause, 2011). Moreover, it reflects whether the organization can deliver on its mandate and priorities in policy. When an organization has a reputation of high performance, it means that they are perceived by audiences to provide them with unique added value above other organizations in the field, to provide high quality decisions and output, and deliver on its promises. To be perceived as having a reputation of high performance is to be perceived as effective and competent (Carpenter & Krause, 2011; Overman et al, 2020).

Second, the technical or professional dimension. This dimension relates to the organization's analytical capacity, technical skill and methodological competency. When an organization has a high technical or professional reputation, that organization will be the standard for other regulators that operate in the same field. Moreover, it shows whether the organization has the capacity and skill to deal with complex environments. To be perceived as having a reputation for high technical and professional capacity is to perceived as having the skill and capacity to deal with complex issues independent of the actual performance (Carpenter & Krause, 2011).

Third, the legal-procedural dimension. This dimension relates to the organization following formally accepted procedures, rules and norms when carrying out regulatory tasks (Carpenter & Krause, 2011). It would entail that the due processes are followed, that exclusion or inclusion of evidence follows the correct procedures and conflicts of interest are dealt with in a adequate manner. To be perceived as having a reputation of high standards for legal-procedural decisions is to be perceived as to always follow correct rules and procedures and to be non-arbitrary, however good or bad the decisions may be (Carpenter & Krause, 2011).

Fourth, the moral dimension. This dimension of reputation refers to the commitment to moral and ethical values and standards displayed by the organization when performing actions or exercising its mandate. Examples of these standards are compassion, regulatory transparency, ethical behaviour, flexibility to constituency needs, and/or protecting citizens from harm (Carpenter & Krause, 2011; Overman et al, 2020). Having a high moral reputation helps the organization to legitimize their existence and serves as a distinction from private corporations (Overman et al, 2020). To be perceived as having a reputation of high moral standards is to be perceived as to be honest, flexible have high ethical standards as well as to be perceived as protecting the interests of constituents.

When an organization attempts to enhance or even 'maximize' one dimension, it is likely that other dimensions will suffer. The dimensions do not stay or move in unison when specific aspects of reputation are enhanced. The full optimisation of multiple dimensions is therefore near infeasible (Carpenter & Krause, 2011). An organization needs to choose which dimensions will receive its priority and which dimensions are of lower importance. Furthermore, organizational reputation is a means of communication as it provides audiences with information regarding the organizations performance in different dimensions. The audience needs this information to be able to make a judgment on the reputation of the organization.

## 2.2 Reputational threats

Reputational threats refer to the '*threats to regulatory organizations and/or the legitimacy of rules and methods of regulation'* (Rothstein, Huber, & Gaskell, 2006, p. 91). Legitimacy is a key attribute for regulatory agencies as it determines whether the standards and rules produced by the regulatory agency are respected and followed by the entities the agency aims to regulate (e.g. industries) and are appreciated by those who are affected by the regulations (e.g. consumers of said industries) (Rimkutė, 2018). However, cultivating legitimacy is no easy feat. Regulatory agencies have to construct their practises carefully to shape the way multiple audiences asses their regulatory activities. Each audience has different demands and expectations and will each give priority to different aspects of regulatory performance when they evaluate an agency (Carpenter 2010; Maor et al, 2012).

Reputational threats may present themselves in a wide array of shapes and sizes. As regulatory agencies are subject to a multitude of audiences, they are also subject to reputational threats from a multitude of audiences. A reputation threat may arise out of printed media statements (Maor & Sulitzeanu-Kenan, 2015), from regulatory errors (Maor, 2011), public attitudes, bureaucratic preferences and interest group pressures (Hood et al. 2001; Rothstein 2003; Rothstein et al. 2012). Regulatory agencies will attempt to manage how audiences perceive and judge their success or failure (Maor et al., 2012). This study employs external criticism in the form of a written feedback as a reputational threat, this will be elaborated upon in section 3.2.1.

## 2.3 Hypotheses

This section will introduce the hypotheses that will be tested in this study. The hypotheses will be formulated building upon the two sections above as well as additional literature.

First, the relationship between reputational threats and agency-audience perception of organizational reputation will be hypothesized. As is mentioned before, an organizational reputation is composed of a set of symbolic beliefs (Carpenter, 2010b). Beliefs are images that represent the organization's history, intentions, mission and capacities (Carpenter, 2010b). Inherent to organizational reputation is that its images have to be perceived by audiences so that they can judge the organization. The images could project onto the audience that the organization can create solutions (e.g. expertise and efficiency), provide services (e.g. moral protection) and create added value that no other organization can (Carpenter, 2001; Maor, 2014). In the case of this study, this means that the EBA has to rely on the audience's perception

of its images regarding the quality, effectiveness and moral conduct of the EBA's regulations and behaviour.

The images and how they are perceived is key in understanding the audience perspective. This study argues that reputational threats can alter the audience's perception of the images. Audiences have set standards in their expectations of the agency (Carpenter, 2010b). The agency needs to meet multiple expectations of multiple audiences to maintain and improve their reputation (Busuioc & Rimkutė, 2019a). When the expectation of the audience is let down when the agency can or will not meet their expectation. This is where reputational threat come in. When a reputational threat, in this case external criticism, is perceived by an audience it shows the audience that the agency cannot meet their expectation, e.g. to adequately regulate those it was tasked to. The external criticism may alter the audience's image of the agency as it provides them with new information that may clash with the image that was embedded with them.

Raub & Weesie (1990) highlight the importance of the game-theoretic approach to understand how audiences can learn about reputational threats to the agency they perceive. Agencies and audiences are embedded in a network. There are several types of networks, in a perfectly embedded system, information on how an agency performs and behaves is immediately spread to third parties in the network. In imperfectly imbedded systems, the information spread is time lagged (Raub & Weesie, 1990). Audience can learn about an agency's behaviour via other members that operate in the same network they are part of. When an audience learns from a third party that an agency they are in a network with has misbehaved or has fallen short in executing its tasks, their trust in the agency is affected (Buskens & Raub, 2013). There are two mechanisms to be identified in the network that affect said trust.

The first mechanism is control, *"Control refers to the case that the trustee has short-term incentives for abusing trust, while some long-term consequences of his behavior in the focal Trust Game depend on behavior of the trustor."* (Buskens & Raub, 2013, p. 129). Audiences can employ punishments on the EBA if is has either willingly or unwillingly failed to meet their expectations and has thereby broken their trust. A result of breaking trust could be that the audience lowers their perception of reputation of the EBA or it may not choose to support the EBA in the future (Buskens & Raub, 2013).

The second mechanism through which the network may affect trust is learning. This mechanism is the most relevant in this hypothesis as it illustrates that audiences can learn about

agency behaviour from third parties. An audience will not have complete information on the behavioural alternatives and incentives of the EBA, as Carpenter & Krause (2011, p.27) point out, *"what audiences see is not the perfectly tuned or visible reality of the agency."*. Rather, *"Complex public organizations are seen 'through a glass but dimly' by their manifold audiences"* (Carpenter & Krause, 2011, p.27). It is therefore understood that, in the network, audiences are able to obtain new information on the performance and behaviour of the EBA from third parties (Buskens & Raub, 2013; Polidoro, Ahuja, & Mitchell, 2011).

The new information that is obtained through third parties, in the form of external criticism, is expected to be used by audiences to see if the EBA can meet their expectations. Subsequently, the information will reshape the way audiences perceive the images that are projected by the EBA and they will pass new judgements. Therefore, when the audience is presented with external criticism treatment, they will hold the EBA in overall lower regard as it is perceived to fall short on the quality and/or effectiveness of its regulations and is perceived to display moral and/or ethical misconduct (as is in line with the treatments formulated in section 3.2.1). As a result of this lowered perception of the images, the perceived organizational reputation of the EBA decreases. Accordingly,

*H1: If the EBA is subjected to external criticism, the overall reputation perception as reported by audiences in the treatment groups is lower.*

As is mentioned before, organizational reputation is a multidimensional concept consisting of four distinct dimensions (Carpenter & Krause, 2011). Audiences hold specific images in mind vis-à-vis the different dimensions of reputation. E.g., audiences perceive that the EBA is effective and competent when it comes to their core tasks which is, amongst other tasks, to regulate and asses risks and vulnerabilities in the European banking sector (European Banking Authority, 2021b). The audience may learn, from external criticism using the learning mechanism in the network, that the EBA has been falling short in a specific dimension. Therefore, when the EBA is criticised that it has failed to execute its core tasks, audiences are expected to perceive the EBA as having lower effectivity, competency and have lower quality outputs. These concepts are related to the performative dimension of reputation (Carpenter & Krause, 2011; Overman et al., 2020). Accordingly,

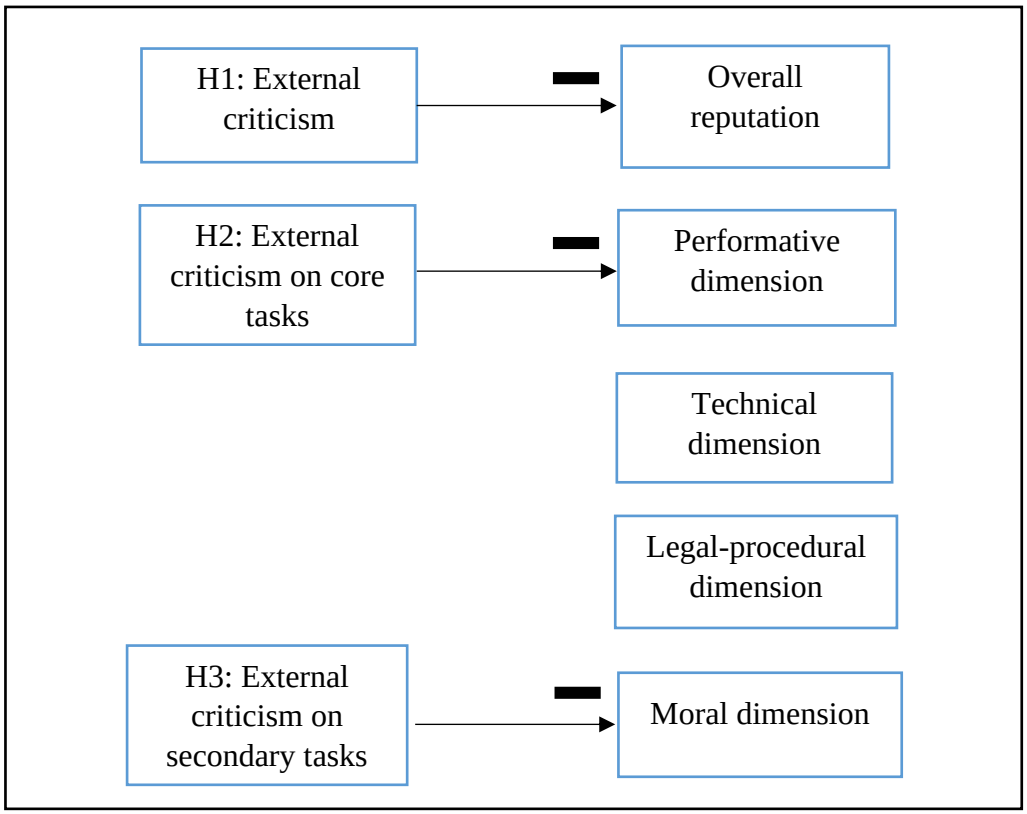
*H2: If the EBA is subjected to external criticism targeted at its core activities, the perception of performative reputation as reported by audiences in the core tasks treatment group is lower.*

The learning mechanism is also expected to be present when an audience is presented with external criticism targeted at the secondary tasks of the EBA. This study defines the secondary tasks as pursuing an ethically defensible mission and having a positive influence on society. These concepts are related to the moral dimension of reputation (Carpenter & Krause, 2011; Overman et al., 2020). The audience learns via external criticism that the EBA has been falling short in the execution of its secondary tasks. Subsequently, audiences are expected to perceive the EBA as failing to pursue an ethically defensible mission as well as having a lower positive influence on society. Accordingly,

*H3: If the EBA is subjected to external criticism targeted at its secondary activities, the perception of moral reputation as reported by audiences in the secondary tasks treatment group is lower.*

**Figure 1.**

*Visualization of the hypothesized effect of H1, H2 and H3.*



# 3. Method

This chapter provides an explanation and justification for the methodological choices of this study. First, the case selection is elaborated upon and justified. Second, the experiment and its treatments are discussed. Third, sample that of this study is discussed. Fourth, organizational reputation is operationalized for measurement. Last, the analytical method is discussed.

## 3.1 Case selection

To highlight the distinctions between the three agencies, the European Banking Authority as well as other two agencies will be briefly introduced.

The first to be introduced is the European System of Financial Supervision, or commonly referred to as the ESFS. The ESFS is a system consisting of multiple layers of micro- and macro- prudential authorities with the aim to ensure a coherent and consistent financial supervision in the EU (European Parliament, z.d.). The European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority are the main supervisory authorities within the ESFS. Moreover, "*The main objective of the ESFS is to ensure that the rules applicable to the financial sector are adequately implemented across Member States in order to preserve financial stability, promote confidence and provide protection for consumers. The objectives of the ESFS also include developing a common supervisory culture and facilitating a single European financial market."* (European Parliament, z.d.).

The second to be introduced is the European Insurance and Occupational Pensions Authority, or commonly referred to as EIOPA. Their objective is to help ensure stability and effectiveness in the European financial system and economy. In addition, they develop a single regulatory framework to provide consistent supervision of occupational pensions sectors and insurance in the EU (European Insurance and Occupational Pensions Authority, 2020).

The third to be introduced is the European Securities and Markets Authority, or commonly referred to as ESMA. Their objective is to ensure stability in the European financial system and enhance the protection of investors as well as promote stable financial markets. In addition, they develop a single regulatory framework for EU financial markets (European Securities and Markets Authority, z.d.).

And last to be introduced is the European Banking Authority, or EBA. The EBA was established in 2011, at the height of the financial crisis. The main mission of the EBA is to

develop a single supervisory and regulatory framework for the entire banking sector in all EU member states (European Banking Authority, 2021a). They refer to this as the European Single Rulebook in banking: "*The Single Rulebook aims at providing a single set of harmonised prudential rules for financial institutions throughout the EU, helping create a level playing field and providing high protection to depositors, investors and consumers."* (European Banking Authority, 2021b). Furthermore, their objective is to maintain financial stability as well as safeguard efficiency, integrity and orderly functioning in the European banking sector. The EBA is mandated to asses development in the market and to monitor said developments as well as identify vulnerabilities and potential risks. Their primary tool in this is an analysis tool called stress testing. The EBA has the authority to initiate and coordinate these stress tests EU-wide. The stress tests are meant to test the resilience of European banks to adverse market developments and to assess the overall systemic risks in the European financial systems (European Banking Authority, 2021a).

The population of interest for this study is the population of European regulatory agencies. The case selected from said population needs to be representative of the population as well as possess a useful variation on the dimensions of theoretical interest (Seawright & Gerring, 2008). Therefore, to test the theoretical propositions made in the previous chapter, the EBA was selected as the case for this study. The EBA is a representative case of the European regulatory agencies population. In addition, it shows variation on the studied theoretical interest as the EBA has recently faced two significant reputational threats. One from a money laundering scandal involving the Danske Bank and one from a revolving door scandal involving the EBA's executive director, Adam Farkas. The effect of these scandals on European regulatory agency's audiences is what this study aims to examine, and therefore the EBA makes a fitting case.

## 3.2 Experiment design

This study administers two different experimental treatments via a survey. By employing an survey experiment this study can administer treatments to the respondents and, due to random assignment, assume that the only difference between groups is the treatment they receive. This allows for the measurement of the causal effect of a treatment on the dependent variable, organizational reputation (Grady, 2020). The experiments employed in this study aims to rigorously asses the effect of external criticism statements on the audience's perception of the moral and performative dimensions of organizational reputation.

The survey was constructed to consist of several different parts; a general introduction, followed by three parts of questions and last, a debriefing. First is the general introduction which elaborates on the nature and purpose of the survey. Then comes part I, in which the respondent is shown a general statement and a control statement or treatment statement on the EBA. After, part II follows, in which the respondent is requested to answer questions concerning the reputation of the EBA. In part III, the respondent is presented with questions regarding their demographic characteristics which will be employed to describe the sample. Last, the respondent is debriefed on the aims of the study. In the general introduction, the respondent is also assured of complete anonymity. For more details, please see Appendix A.

Upon opening the survey, the respondent is randomly assigned to one of three groups; the control group, core tasks treatment group or the secondary tasks treatment group. All groups are presented with a general statement about the EBA. The statements are designed to be as similar as possible. The statements were presented in the same way and were constructed to consist of exactly the same amount of words. This was done to make sure that the statements are, aside from the content, comparing 'apples to apples' as much as possible, thus reducing possible biases (Angrist & Pischke, 2014).

If a respondent is assigned to group 1, they will not receive a treatment but will be part of the control group. They will be presented with a neutral statement with general information on the EBA. There are two possible treatments to be received by the respondent. If respondents are assigned to group 2 they will receive treatment 1, which consist of a statement that criticises how the EBA executes its core tasks. This treatment is designed to affect the performative dimension of reputation. Respondents can also assigned to group 3 in which case they will receive treatment 2. Treatment 2 consists of a statement criticizing how the EBA is executing its secondary tasks. This treatment is designed to affect the moral dimension of reputation..

### 3.2.1 Treatments

The control group was not manipulated. Respondents of this group are presented with a neutral feedback statement on the functioning of the EBA. The neutral feedback statement is presented in table 1.

The core tasks treatment group was manipulated by adding a statement that criticises the EBA for falling short on their core responsibility. The criticism concerns a recent money laundering scandal at Danske Bank in which the EBA chose not to conduct an investigation (Financial Times, 2019). To avoid doing unnecessary damage to relationships between audiences and

agencies, the statements was not forged but drafted in accordance with actual media statements. The core tasks treatment statement is presented in table 1.

The secondary tasks treatment group was manipulated by a statement on a recent revolving door scandal involving the EBA's executive director, Adam Farkas. He left the EBA to become CEO at one of Europe's major financial lobby associations (Reuters, 2020). As with the core tasks treatment, there was no attempt to forge a statement. Instead, the statement was drafted in accordance with actual media statements. The secondary tasks treatment statement is presented in table 1.

**Table 1**

*Experimental design.*

| 1. Control group | 2. Core tasks treatment | 3. Secondary tasks treatment |
|---|---|---|
| The European Banking Authority (EBA) is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector. | [General statement] | [General statement] |
| The main task of the EBA is to contribute to the creation of the European Single Rulebook in banking whose objective is to provide a single set of harmonized prudential rules for financial institutions throughout the EU. The EBA was established on 1 January 2011 as part of the European System of Financial Supervision and took over all existing responsibilities and | However, the EBA has fallen short of its core responsibility. More specifically, the EBA has been criticized for choosing to drop an investigation into Danske Bank over its money laundering scandal. The EBA rejected an internal report that identified a number of supervisory failings at the Danish national bank. The report revealed that more than €200bn of illicit funds from Russian | However, the EBA has breached ethical standards. More specifically, the EBA has been criticized for mishandling its conflicts of interest issues resulting in a revolving door scandal. Adam Farkas, executive director of the EBA, has become a CEO of one of the major financial lobby associations that, according to the EU Transparency Register, spends upward of €5 million a year, |

| | | |
|---|---|---|
| tasks of the Committee of European Banking Supervisors. | accounts have funneled into the continental banking system. | lobbying EU institutions on regulatory and capital markets issues. |

## 3.3 Sample

The nature of the dataset is cross-sectional as the data only includes one moment of measurement.. The method and theoretical propositions of this study are quite novel. Due to these novelties, it is helpful to first explore their usefulness using a student sample rather than actual direct stakeholders to the EBA[1]. This study will therefore rely upon data from a student sample. The survey was predominantly conducted amongst students of the Leiden University. The survey was spread among said students using email and social media. The survey has been opened by 228 respondents, of that group 119 finished the survey. This results in a completion rate of 52,2%. The data was collected during the period of one month, from October 24th until November 25th. The survey was spread attached to an invitation which specifically stated the scientific purpose of the study, the research subject, the people involved, the target group, the estimated time needed to answer all questions, and contact information in the case respondents would have questions on the survey, followed by a link to the survey. The invitation was spread in English and Dutch. The survey was only spread in English. Three reminders were sent, after two days, after ten days and finally after seventeen days (Overman et al., 2020).

## 3.4 Measurement of organizational reputation

This study employs measurements developed by Overman et al. (2020) and Lee & Van Ryzin (2018) to measure the multiple dimension of reputation. The first item in table 2 measures the overall perception of reputation and is employed to have respondents indicate their overall reputation perception of the EBA (Lee & Van Ryzin, 2018). The last seven items are developed by Overman et al. (2020). They started off with a pool of 41 items. Subsequently, they tested the items using a pilot survey. They then improved their instrument using confirmatory factor analysis. However, Overman et al (2020) found no empirical evidence in the pilot survey for the technical dimension. Items expected to load on the technical dimension loaded on the performative and legal-procedural dimension instead. Accordingly, the items developed for the technical dimension were dropped (Overman et al, 2020). To improve the discriminant validity as well as the model fit of the three-factor model, additional items were dropped that were

[1] This study intended to use direct stakeholders as sample and over 2000 stakeholders from over 200 organizations were contacted. However, due to a too low response rate, a student sample was used.

either too difficult to answer for the respondents or did not share enough variance, R^2 < 42 percent, with their designated factor. Resulting in a pool of seven items that are presented in table 2. These remaining items are used in this study to measure the perception of the performative, moral and legal-procedural dimension of reputation.

The items measuring the different dimensions of reputation are always presented to the respondent in a random order. The items are scored using a 7-point scale (Overman et al., 2020: Lee & Van Ryzin, 2018). Item O1 requests respondents to answer using the 7-point scale with 1 being "strongly agree" and 7 being "strongly disagree" while the last seven items use the 7-points scale transposed. This means that those items are scored with 1 being being 'fully disagree' and 7 being 'fully agree'.

**Table 2**

*The survey items measuring 'Organizational reputation'.*

| **Dimension** | **Item** |
|---|---|
| Overall | O1. Overall, the EBA has a good reputation. |
| Performative | P1. EBA's output is of high quality. |
| | P2. EBA is an effective organization. |
| | P3. EBA is a competent regulator. |
| Moral | M1. EBA's mission is ethically defensible (their mission is the right mission). |
| | M2. EBA has a positive influence on society. |
| Legal-procedural | LP1. Decision-making in EBA follows due process. |
| | LP2. EBA follows correct procedures. |

## 3.5 Analytical method

The tool used to conduct quantitative analysis in this study is IBM SPSS Statistics. First, descriptive statistics will be presented. The descriptive statistics provide useful insight into the characteristics of the sample such as, means, frequencies and standard deviations. These statistics can be observed to determine trends and the generalizability of the sample. To access the effect of the treatment on the perception of organizational reputation the means between groups have to be compared. This can be done by employing two sample t-tests. The two sample t-tests will be used to test the hypotheses. In addition, a general one-way ANOVA with

post-hoc test is employed to gain further understanding of the general, significant, effects on group means due to the treatments.

To employ the one-way ANOVA, six assumption have to be met (Leard Statistics, 2018b). Assumption one, two and three are respectively related to the dependant variable, independent variable and the independence of observations. The dependent variables are all continuous thus assumption one is met. The independent variable consists of three categorical groups and thus assumption two is met. The groups are independent of each other, meaning that there are no relationships between observations inside each group or between groups, therefore assumption three is also met.

The fourth assumption is that there are no outliers. Figure 2-9 present boxplots of all dependent variables. There are outliers to be found in figure 2,3,4,7,8 and 9. However, these outliers are most likely not a result of sampling or data entry errors as respondents could only answer items in a range from 1 to 7. Rather, they are a result of natural variation of the perceptions of respondents. Therefore, the is no legitimate foundation to remove the outliers and therefore they will be kept in the dataset for the analysis.

The fifth assumption is that the dependent variables are normally distributed for each category of the independent variable. To check for this, a normality test is conducted. Table 3 presents the results of the Kolmogorov-Smirnov and Shapiro-Wilk normality tests. As the sample size of each group is N<50, the Shapiro-Wilk test is most reliable (Gupta et al., 2019). Using the Shapiro-Wilk test, one can determine that the dependent variable is normally distributed if P>0,05. This is the case for '*EBA is a competent regulator*' * 'Secondary tasks treatment group' (P = 0,063). However, the one-way ANOVA is considered to be a robust test against the normality assumption. It tolerates violations to the normality assumption rather well (Leard Statistics, 2018a). Therefore, it need not be a major problem that this assumption is not met for all items.

Finally, the sixth assumption states that there needs to be homogeneity of variances. This assumption can be tested using the Levene's test in a one-way ANOVA. This was satisfied using Levene's F test for each variable except for one, '*EBA's mission is ethically defensible (their mission is the right mission)*' F(116)=5,101, P=.008 (see Appendix B). However, the groups sizes do not sharply differ but are roughly of equal size. Therefore, the violation can be ignored (Van den Berg, 2017).

**Table 3**

*Tests of Normality*

| | Treatment group indicator | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|---|
| | | Statistic | df | Sig. | Statistic | df | Sig. |
| O1. Overall, the EBA has a good reputation | Control group | ,173 | 41 | ,003 | ,932 | 41 | ,017 |
| | Core tasks | ,154 | 39 | ,020 | ,924 | 39 | ,011 |
| | Secondary tasks | ,224 | 39 | <,001 | ,910 | 39 | ,004 |
| P1. EBA's output is of high quality | Control group | ,224 | 41 | <,001 | ,877 | 41 | <,001 |
| | Core tasks | ,277 | 39 | <,001 | ,853 | 39 | <,001 |
| | Secondary tasks | ,243 | 39 | <,001 | ,903 | 39 | ,003 |
| P2. EBA is an effective organization | Control group | ,192 | 41 | <,001 | ,896 | 41 | ,001 |
| | Core tasks | ,176 | 39 | ,004 | ,909 | 39 | ,004 |
| | Secondary tasks | ,181 | 39 | ,002 | ,935 | 39 | ,026 |
| P3. EBA is a competent regulator | Control group | ,247 | 41 | <,001 | ,870 | 41 | <,001 |
| | Core tasks | ,201 | 39 | <,001 | ,914 | 39 | ,006 |
| | Secondary tasks | ,150 | 39 | ,027 | ,946 | 39 | ,063 |
| M1. EBA's mission is ethically defensible (their mission is the right mission) | Control group | ,215 | 41 | <,001 | ,892 | 41 | <,001 |
| | Core tasks | ,211 | 39 | <,001 | ,907 | 39 | ,004 |
| | Secondary tasks | ,227 | 39 | <,001 | ,900 | 39 | ,002 |
| M2. EBA has a positive influence on society | Control group | ,266 | 41 | <,001 | ,858 | 41 | <,001 |
| | Core tasks | ,206 | 39 | <,001 | ,856 | 39 | <,001 |
| | Secondary tasks | ,177 | 39 | ,003 | ,936 | 39 | ,027 |
| LP1. Decision-making in EBA follows due process | Control group | ,287 | 41 | <,001 | ,839 | 41 | <,001 |
| | Core tasks | ,202 | 39 | <,001 | ,933 | 39 | ,023 |
| | Secondary tasks | ,303 | 39 | <,001 | ,848 | 39 | <,001 |
| LP2. EBA follows correct procedures | Control group | ,282 | 41 | <,001 | ,877 | 41 | <,001 |
| | Core tasks | ,183 | 39 | ,002 | ,910 | 39 | ,004 |
| | Secondary tasks | ,195 | 39 | <,001 | ,908 | 39 | ,004 |

a. Lilliefors Significance Correction

**Figure 2**

*Boxplot comparing groups on 'Overall, the EBA has a good reputation'.*

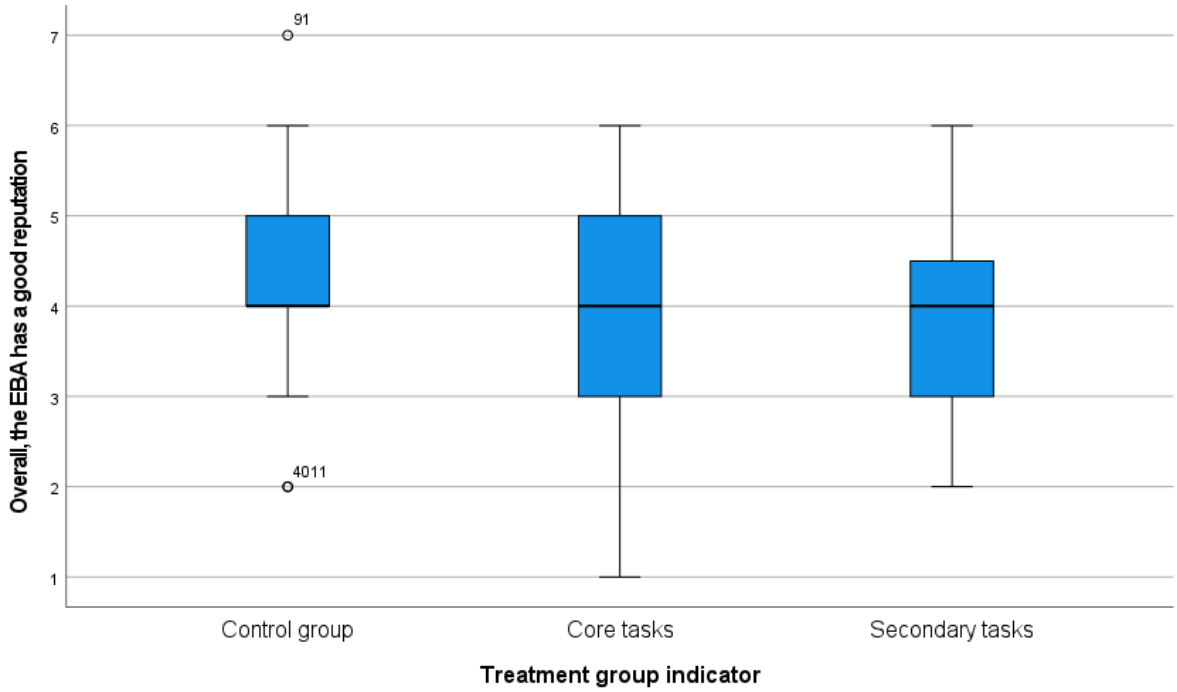



**Figure 3**

*Boxplot comparing groups on 'EBA's output is of high quality'.*

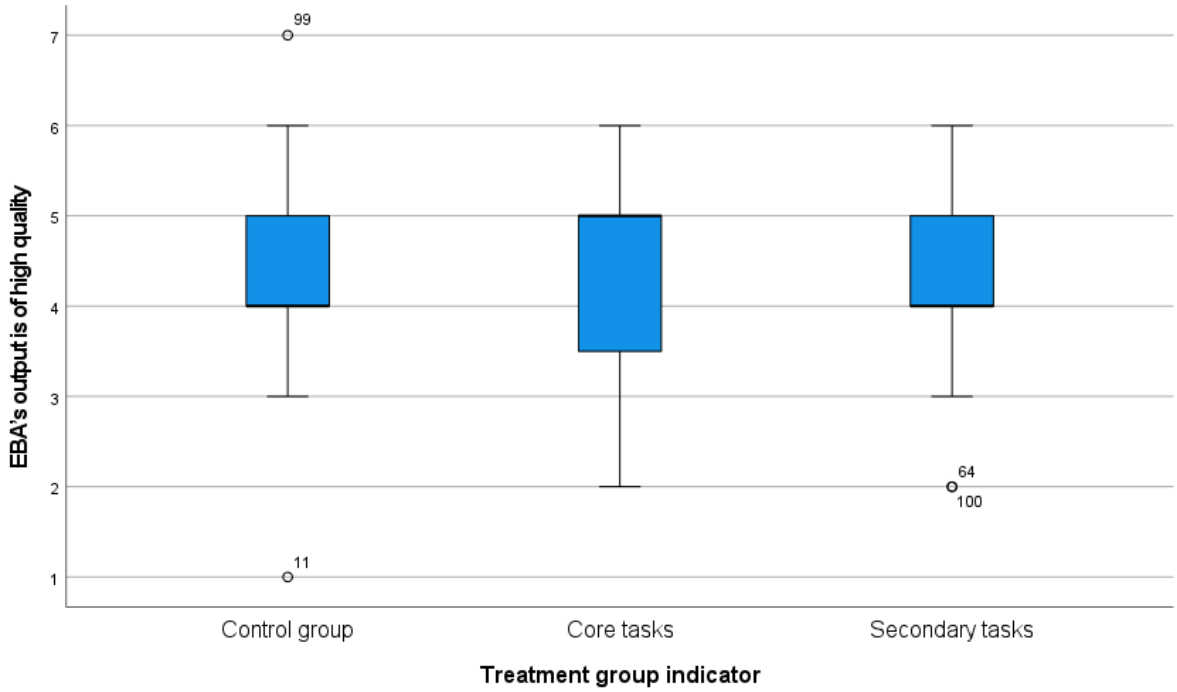


**Figure 4**

*Boxplot comparing groups on 'EBA is an effective organization'.*

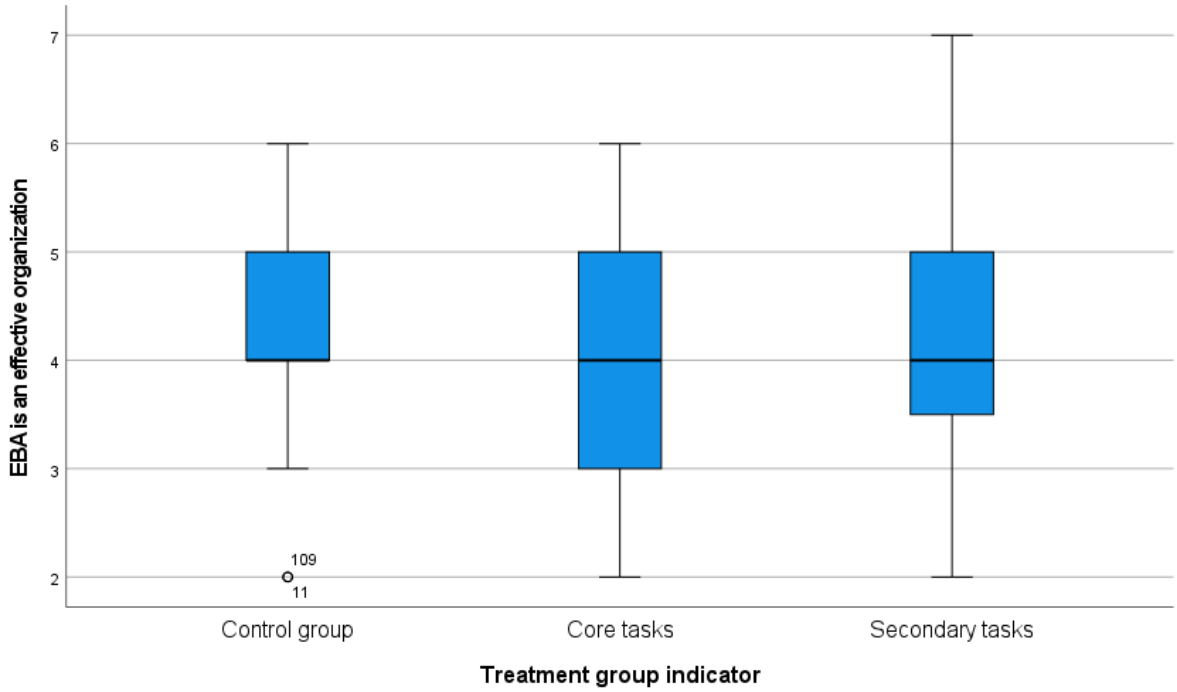



**Figure 5**

*Boxplot comparing groups on 'EBA is competent regulator'.*

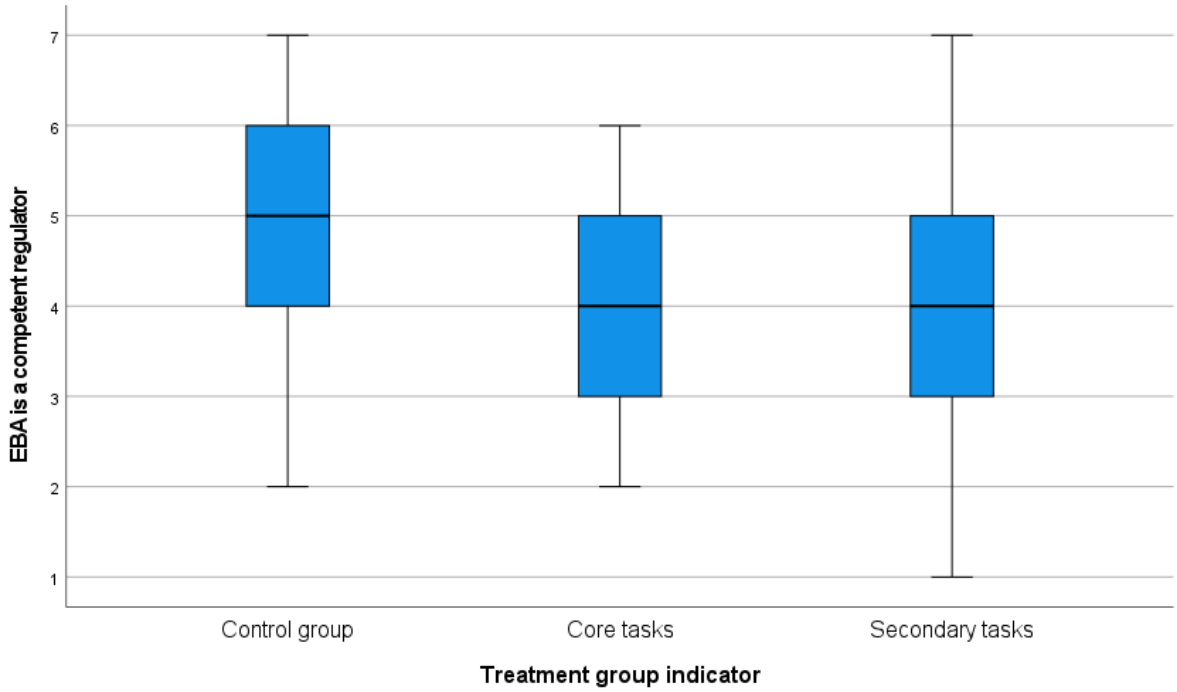


**Figure 6**

*Boxplot comparing groups on 'EBA's mission is ethically defensible (their mission is the right mission'.*

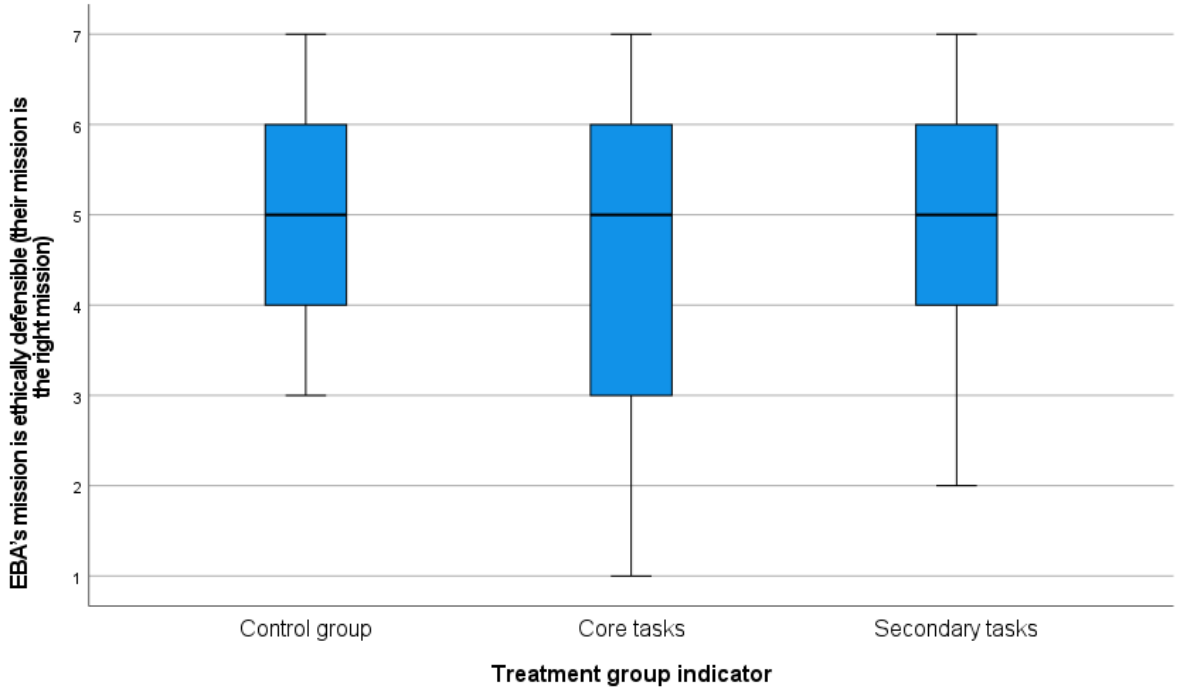



**Figure 7**

*Boxplot comparing groups on 'EBA has a positive influence on society'.*

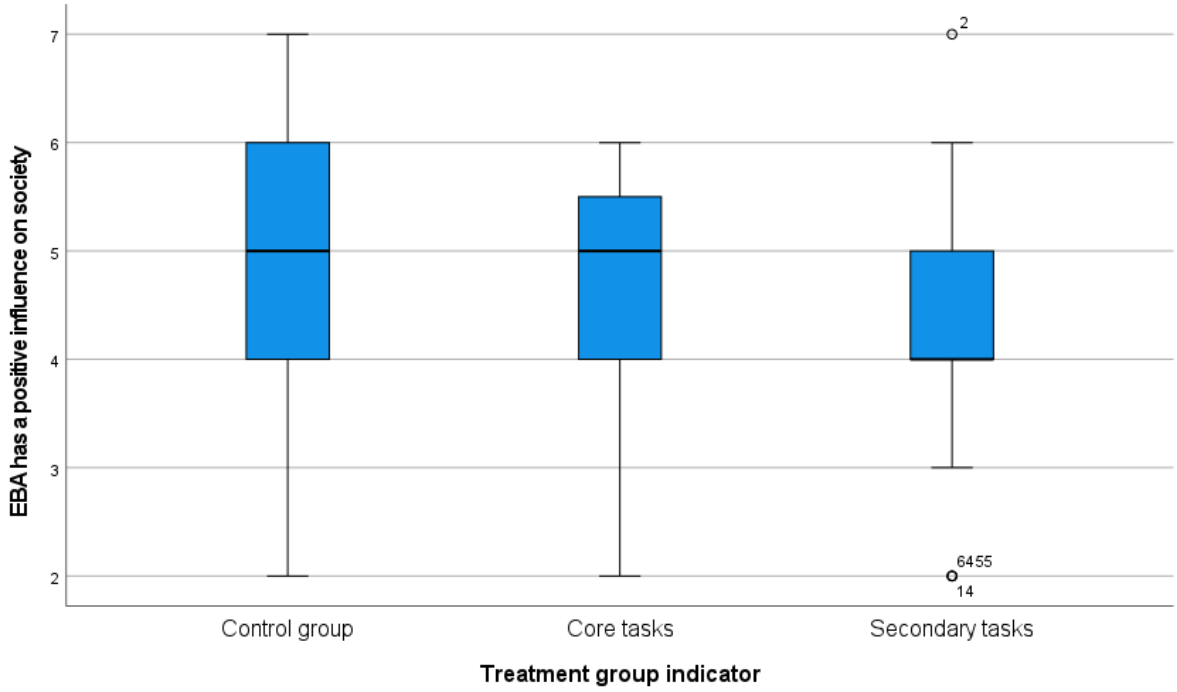


**Figure 8**

*Boxplot comparing groups on 'Decision-making in the EBA follows due process'.*

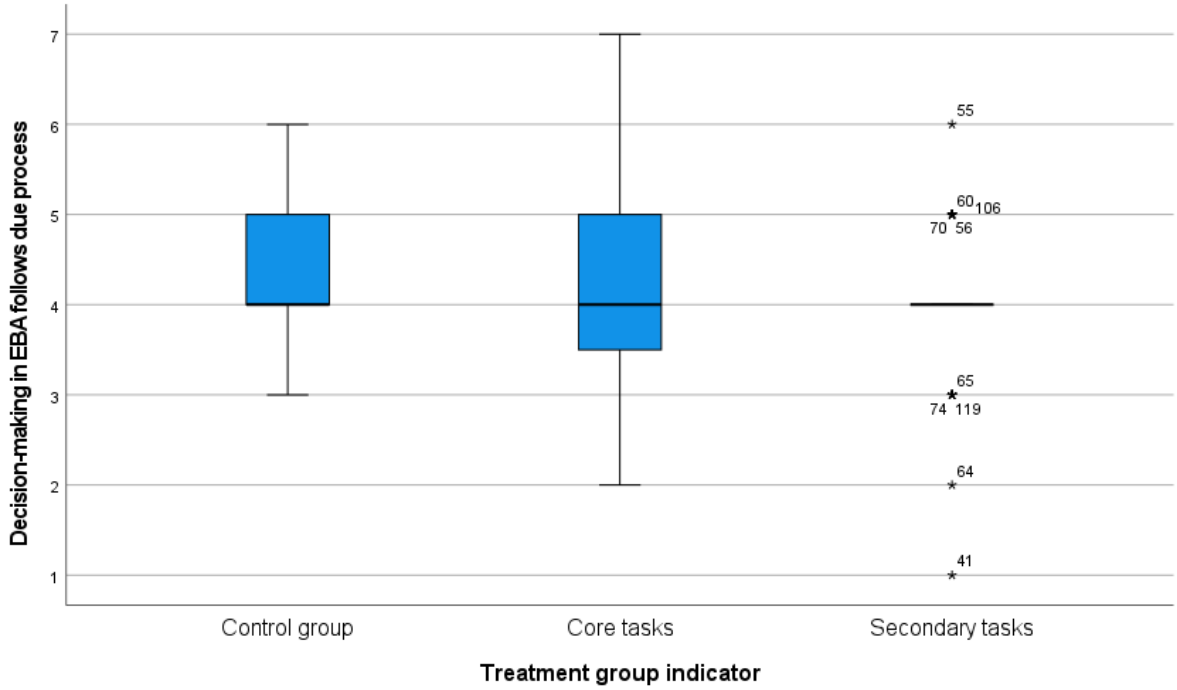
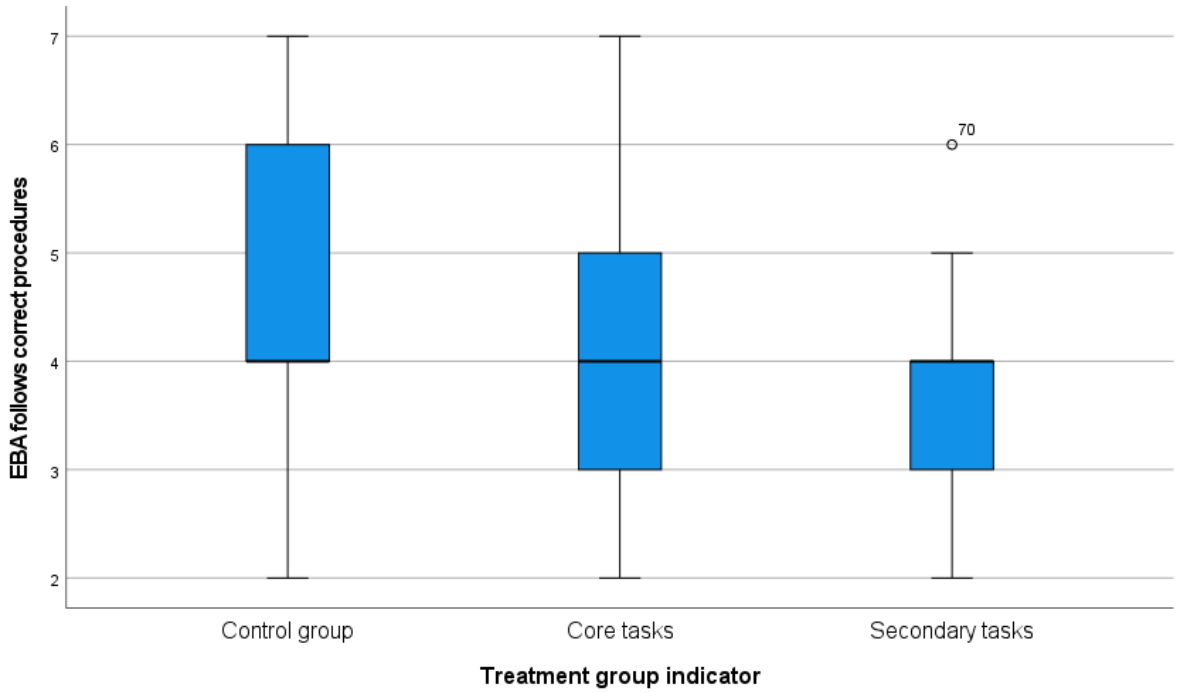



**Figure 9**

*Boxplot comparing groups on 'EBA follows correct procedures'.*



# 4. Results

In this chapter, the results as derived from the survey experiment data are presented. The chapter consists of  sections. In the first section, the descriptive statistics of the studied population are presented. These statistics provide insight into the characteristics of the data and the experiments groups. In the second section, manipulation check is conducted. In the third section, the descriptive statistics of the dependent variables are presented. In the fourth, the hypotheses are tested by employing t-tests to assess the effect of each treatment on mean scores of organizational reputation. In the fifth section, an one-way ANOVA and post-hoc assessment are conducted to gain a more thorough understanding of which treatment affects which item. It is common to employ scatterplots to help visualize the direction of the studied relationships. Due to the nature of independent variable and the range of the dependent variable, these scatterplots would present an unmeaning image and are therefore not included.

## 4.1 Descriptive statistics of the sample

Table 4 presents the distribution of respondents among the three experiment groups. The respondents have been distribution almost equally among the three experiment groups with the control group being the largest (41 respondents, 34,5%) and the core and secondary tasks treatment groups being of equal size (39 respondents, 32,8%). The groups being of near equal size is favourable for the results that are derived from the experimental groups manipulations.

**Table 4**

*Distribution of the respondents among groups (N=119).*

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Control group | 41 | 34,5 | 34,5 | 34,5 |
| | Core tasks | 39 | 32,8 | 32,8 | 67,2 |
| | Secondary tasks | 39 | 32,8 | 32,8 | 100,0 |
| | Total | 119 | 100,0 | 100,0 | |

Table 5 presents the distribution of gender among the three studied groups As table 5 only reports an N of 103 out of the 119 respondents, 16 values are missing. The respondents are predominantly male as they account for 61,2% (63 respondents) of the total N, while only 35,9% (37 respondents) are female. This distribution is also reflected in the three experiment groups where each group mostly consist of male respondents. The control group has the highest percental difference between males and female. Here, males account for 69,4% (25 respondents) of the group while females only account for 27,8% (10 respondents). The core tasks treatment group has the lowest percental difference between males and females. Here,

males account for 57,1% (20 respondents) of the group while females account for 42,9% (15 respondents) of the group. Two respondents preferred not to say which gender they identified with while one respondent reported to belong to the 'Other' category.

**Table 5**

*Distribution of gender among groups (N=119).*

| Group | Gender | N | % of group |
|---|---|---|---|
| Control group | Male | 25 | 69,4% |
| | Female | 10 | 27,8% |
| | Prefer not to say | 1 | 2,7% |
| | Total | 36 | |
| Core tasks | Male | 20 | 57,1% |
| | Female | 15 | 42,9% |
| | Total | 35 | |
| Secondary tasks | Male | 18 | 56,3% |
| | Female | 12 | 37,5% |
| | Other | 1 | 3,1% |
| | Prefer not to say | 1 | 3,1% |
| | Total | 32 | |
| Total | Male | 63 | 61,2% |
| | Female | 37 | 35,9% |
| | Other | 1 | 1,0% |
| | Prefer not to say | 2 | 1,9% |
| | Missing | 16 | |
| | Total | 119 | |

Table 6 presents the distribution of education level among the three experiments groups. As table 6 only reports an N of 103 out of 119 respondents, 16 values are missing. The respondents are predominantly at the education level of 'Post-graduate degree / Master's degree' as they account for 58,9% (60 respondents) of the total N. Furthermore, 33,4% (35 respondents) is at the education level of 'Graduate degree / Bachelor's degree' and only 1,9% (2 respondents) are at the level of 'Ph.D degree / doctorate degree'. Moreover, 5,8% (6 respondents) of all respondents indicated that there education level is 'Other'. The control group has a near even distribution of respondents with a 'Graduate degree / Bachelor's degree' (40,5%, 15 respondents) and 'Post-graduate / Master's degree' (51,4%, 19 respondents). The core tasks treatment group has the highest percental difference between these two main education levels, with 'Graduate degree / Bachelor's degree' only accounting for 29,4% (10 respondents) and

‘Post-graduate / Master’s degree’ accounting for 64,7% (22 respondents) of the respondents in this group.

**Table 6**

*Distribution of education level among groups (N=119)*

| Group | Education level | N | % of group |
|---|---|---|---|
| Control group | Graduate degree / Bachelor's degree (BA) | 15 | 40,5% |
| | Post-graduate degree / Master's degree (MA) | 19 | 51,4% |
| | Other | 3 | 8,1% |
| | Total | 37 | |
| Core tasks | Graduate degree / Bachelor's degree (BA) | 10 | 29,4% |
| | Post-graduate degree / Master's degree (MA) | 22 | 64,7% |
| | Ph.D. degree / doctorate degree | 1 | 2,9% |
| | Other | 1 | 2,9% |
| | Total | 34 | |
| Secondary tasks | Graduate degree / Bachelor's degree (BA) | 10 | 31,3% |
| | Post-graduate degree / Master's degree (MA) | 19 | 59,4% |
| | Ph.D. degree / doctorate degree | 1 | 3,1% |
| | Other | 2 | 6,3% |
| | Total | 32 | |
| Total | Graduate degree / Bachelor's degree (BA) | 35 | 33,4% |
| | Post-graduate degree / Master's degree (MA) | 60 | 58,9% |
| | Ph.D. degree / doctorate degree | 2 | 1,9% |
| | Other | 6 | 5,8% |
| | Missing | 16 | |
| | Total | 119 | |

Table 7 present the distribution of age among the studied groups. As table 7 only reports an N of 103 out of 119 respondents, 16 values are missing. The respondents are predominantly aged 19-25 (67%, 69 respondents). The second largest group is aged 26-30 (16,9%, 17 respondents). The skewed distributions of age among respondents is very logical as the survey was conducted primarily among students whom are likely to be aged below 31. The skewedness inherent to a

student sample is reflected in all groups where the largest part of the group is aged 19-25, followed by the second largest group of respondents aged 26-30. Remarkable is that the third largest part of each group is the respondents aged 51 or above. Of the total N, only 7 respondents have reported to be aged between 31 and 50.

**Table 7**

*Distribution of age among groups (N=119).*

| Group | Age | N | % of group |
|---|---|---|---|
| Control group | 19-25 | 22 | 61,1% |
| | 26-30 | 8 | 22,2% |
| | 31-35 | 1 | 2,8% |
| | 46-50 | 2 | 5,6% |
| | 51 or above | 3 | 8,3% |
| | Total | 36 | |
| Core tasks | 19-25 | 24 | 68,5% |
| | 26-30 | 5 | 14,3% |
| | 31-35 | 1 | 2,9% |
| | 41-45 | 1 | 2,9% |
| | 51 or above | 4 | 11,4% |
| | Total | 35 | |
| Secondary tasks | 19-25 | 23 | 71,9% |
| | 26-30 | 4 | 12,5% |
| | 31-35 | 1 | 3,1% |
| | 46-50 | 1 | 3,1% |
| | 51 or above | 3 | 9,4% |
| | Total | 32 | |
| Total | 19-25 | 69 | 67,0% |
| | 26-30 | 17 | 16,9% |
| | 31-35 | 3 | 3,3% |
| | 41-45 | 1 | 0,7% |
| | 46-50 | 3 | 2,1% |
| | 51 or above | 10 | 10,1% |
| | Missing | 16 | |
| | Total | 119 | |

## 4.2 Manipulation check

The manipulation check requests the respondents to answer the following question, '*In the past years, the EBA faced some public criticism about scandals concerning its regulatory or ethical conduct.*'. Note that the answer possibilities for the manipulation check are transposed,

meaning that in this 7-point scale 1 is ‘fully agree’ and 7 is ‘fully disagree’. The manipulation check is conducted to check whether respondents from the treatment groups, who are presented with external criticism, agree significantly more with the statement that the EBA has faced criticism in the past years compared to their control group counterparts. If respondents from the treatment groups agree significantly more with the manipulation check statement than their control groups counterparts, the manipulation was successful.

To test whether the manipulation check was successful, the control group sample and combined treatment groups sample are compared with a two sample t-test. Table 8 reports the group statistics of the control group and the combined treatment groups on ‘*manipulation check*’.

**Table 8**

*Group statistics of ‘Control group’ and ‘Treatment groups’ on ‘Manipulation check’.*

| | Group | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|---|
| Manipulation check | Control group | 38 | 3,55 | 1,108 | ,180 |
| | Treatment groups | 73 | 2,75 | 1,103 | ,129 |

Table 9 presents a t-test to compare the manipulation check means of the control group and the combined treatment groups. The Levene’s statistic is satisfied for F=,116, P=.735, meaning that equal variances can be assumed. The 73 respondents who received the external criticism treatment targeted the EBA (*M*=2,75, *SD*=1,103), compared to the 38 respondents in the control group (*M*=3,55, *SD*=1,108), demonstrated a significantly lower score on the manipulation check, t(109)=3,618, P=.000. The respondents of the treatment groups are significantly more likely to agree that the EBA has faced public criticism in the recent years compared to their control groups counterparts. Therefore, the manipulation of the treatment groups was successful.

**Table 9**

*Independent Samples Test between ‘Control group’ and ’Treatment groups’ on ‘Manipulation check’.*

| | | Manipulation check | |
|---|---|---|---|
| | | Equal variances assumed | Equal variances not assumed |
| Levene's Test for Equality of Variances | F | ,116 | |
| | Sig. | ,735 | |

| | | | | |
|---|---|---|---|---|
| t-test for Equality of Means | t | | 3,618 | 3,612 |
| | df | | 109 | 74,800 |
| | Significance | One-Sided p | <,001 | <,001 |
| | | Two-Sided p | ,000 | ,001 |
| | Mean Difference | | ,799 | ,799 |
| | Std. Error Difference | | ,221 | ,221 |
| | 95% Confidence Interval of the Difference | Lower | ,361 | ,358 |
| | | Upper | 1,237 | 1,240 |

## 4.3 Descriptive statistics of the dependant variables

Table 10 presents the descriptive statistics of the items employed to measure organizational reputation. As mentioned before, respondents were requested to answer the items using a 7-point scale, with 1 being 'fully disagree' and 7 being 'fully agree'. Considering all items, the EBA has scored mediocre on the organizational reputation items with all means scoring somewhat above 4 (neither disagree nor agree).

The item '*Overall, the EBA has a good reputation'*, (*M*=4,18, *SD*=1,169) illustrates that respondents have an overall neutral perception of the EBA with a relatively low dispersion. This is the second lowest mean and third lowest standard deviation of all items. Furthermore, the perception scores on all items seem to differ widely. The scores on five items range from 1 (fully disagree) to 7 (fully agree) and three items range from 2 (disagree) to 7. This entails that respondents have widely varying perceptions on all items.

The highest mean is reported for the item, '*EBA's mission is ethically defensible (their mission is the right mission)*', with *M*=4,85, *SD*=1,459. Respondents seem to agree somewhat that the mission of the EBA is ethically defensible. However, it should be noted that while this item has the highest mean, it also has the highest standard deviation and thus the perceptions are relatively dispersed. The lowest mean is reported for the item, '*EBA follows correct procedures*', with *M*=4,08, *SD*=1,194. Respondents seem to neither disagree nor agree with the statement that the EBA follows correct procedures. Here, dispersion is relatively low.

**Table 10**

*Descriptive Statistics of the items measuring organizational reputation.*

| | N | Mean | Std. Deviation | Variance | Minimum | Maximum |
|---|---|---|---|---|---|---|
| O1. Overall, the EBA has a good reputation | 119 | 4,18 | 1,169 | 1,367 | 1 | 7 |

| | | | | | | |
|---|---|---|---|---|---|---|
| P1. EBA's output is of high quality | 119 | 4,32 | 1,081 | 1,168 | 1 | 7 |
| P2. EBA is an effective organization | 119 | 4,23 | 1,210 | 1,465 | 2 | 7 |
| P3. EBA is a competent regulator | 119 | 4,42 | 1,312 | 1,720 | 1 | 7 |
| M1. EBA's mission is ethically defensible (their mission is the right mission) | 119 | 4,85 | 1,459 | 2,129 | 1 | 7 |
| M2. EBA has a positive influence on society | 119 | 4,59 | 1,252 | 1,566 | 2 | 7 |
| LP1. Decision-making in EBA follows due process | 119 | 4,24 | 1,047 | 1,097 | 1 | 7 |
| LP2. EBA follows correct procedures | 119 | 4,08 | 1,194 | 1,426 | 2 | 7 |
| Valid N (listwise) | 119 | | | | | |

## 4.4 Testing the hypotheses

To test H1 *(If the EBA is subjected to external criticism, the overall reputation perception as reported by audiences in the treatment groups is lower.),* the control group and the combined treatment groups mean scores for the item '*Overall, the EBA has a good reputation'* are compared using a two sample t-test. Table 11 reports the group statistics of the control group sample and the combined treatment groups sample on '*Overall, the EBA has a good reputation'*.

**Table 11**

*Group Statistics of 'Control group' and 'Treatment groups' on 'Overall, the EBA has a good reputation'.*

| | Group | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|---|
| O1. Overall, the EBA has a good reputation | Control group | 41 | 4,46 | 1,120 | ,175 |
| | Treatment groups | 78 | 4,03 | 1,173 | ,133 |

Table 12 presents a t-test to compare the means of the control group and the combined treatment groups on item O1, '*Overall, the EBA has a good reputation'*. The Levene's statistic is satisfied for F=,057, P=.812, and thus equal variances can be assumed. The 78 respondents who received the external criticism treatment (*M*=4,03, *SD*=1,173), compared to the 41 respondents in the control group (*M*=4,46, *SD*=1,120), demonstrated no significantly lower score on the overall performance, t(117)=1,964, p=.052. The respondents of the combined treatment groups are not

significantly more likely to have a lower perception of the EBA's overall reputation of following external criticism compared to their control groups counterparts.

**Table 12**

*Independent Samples Test between 'Control group' and 'Treatment groups' on 'Overall, the EBA has a good reputation'.*

| | | | | Equal variances assumed | Equal variances not assumed |
|---|---|---|---|---|---|
| O1. Overall, the EBA has a good reputation | Levene's Test for Equality of Variances | F | | ,057 | |
| | | Sig. | | ,812 | |
| | t-test for Equality of Means | t | | 1,964 | 1,993 |
| | | df | | 117 | 84,768 |
| | | Significance | One-Sided p | ,026 | ,025 |
| | | | Two-Sided p | ,052 | ,049 |
| | | Mean Difference | | ,438 | ,438 |
| | | Std. Error Difference | | ,223 | ,220 |
| | | 95% Confidence Interval of the Difference | Lower | -,004 | ,001 |
| | | | Upper | ,879 | ,875 |

To test H2 *(If the EBA is subjected to external criticism targeted at its core activities, the perception of performative reputation as reported by audiences in the core tasks treatment group is lower.)*, the control group and the core tasks treatment group mean scores for items measuring the performative dimension are compared using a two sample t-test. An index for the items measuring performative reputation is employed in this test. Table 13 reports the group statistics of the control group sample and the core tasks treatment group sample on '*Performance index'*.

**Table 13**

*Groups statistics of 'Control group' and 'Core tasks' on 'Performance index'.*

| | Group | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|---|
| Performance index | Control group | 41 | 4,7236 | ,93957 | ,14674 |
| | Core tasks | 39 | 4,0598 | ,90441 | ,14482 |

Table 14 presents a t-test to compare the means of the control group and the core tasks treatment group on *'Performance index*'. The Levene's statistic is satisfied for F=,415, P=.521, and thus

equal variances can be assumed. The 39 respondents who received the external criticism treatment targeted at the core tasks of the EBA (*M*=4,060, *SD*=,904), compared to the 41 respondents in the control group (*M*=4,724, *SD*=,940), demonstrated a significantly lower score on the performance index, t(78)=3,216, p=.002. The respondents of the core tasks treatment group are significantly more likely to have a lower perception of the performative reputation of the EBA compared to their control groups counterparts.

**Table 14**

*Independent Samples Test between 'Control group' and 'Core tasks' on 'Performance index'.*

| | | | | Equal variances assumed | Equal variances not assumed |
|---|---|---|---|---|---|
| Performance index | Levene's Test for Equality of Variances | F | | ,415 | |
| | | Sig. | | ,521 | |
| | t-test for Equality of Means | t | | 3,216 | 3,219 |
| | | df | | 78 | 77,988 |
| | | Significance | One-Sided p | <,001 | <,001 |
| | | | Two-Sided p | ,002 | ,002 |
| | | Mean Difference | | ,66375 | ,66375 |
| | | Std. Error Difference | | ,20637 | ,20617 |
| | | 95% Confidence Interval of the Difference | Lower | ,25290 | ,25330 |
| | | | Upper | 1,07459 | 1,07420 |

To test H3 *(If the EBA is subjected to external criticism targeted at its secondary activities, the perception of moral reputation as reported by audiences in the secondary tasks treatment group is lower.)*, the control group and the secondary tasks treatment group mean scores for items measuring the moral dimension are compared using a two sample t-test. An index for the items measuring moral reputation is employed in this test. Table 15 reports the descriptive statistics of the control group sample and the secondary tasks treatment group sample on '*Moral index'*.

**Table 15**

*Group Statistics of Control group' and 'Core tasks' on 'Moral index'.*

| | Group | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|---|
| Moral index | Control group | 41 | 4,9024 | 1,06782 | ,16677 |
| | Secondary tasks | 39 | 4,6538 | 1,04601 | ,16750 |

Table 16 presents a t-test to compare the means of the control group and the secondary tasks treatment group on *'Moral index'*. The Levene's statistic is satisfied for F=,752, P=.392, and thus equal variances can be assumed. The 39 respondents who received the external criticism treatment targeted at the secondary tasks of the EBA (*M*=4,654, *SD*=1,046), compared to the 41 respondents in the control group (*M*=4,903, *SD*=1,068), demonstrated no significantly lower score on the moral index, t(78)=1,051, p=.296. The respondents of the secondary tasks treatment group are not significantly more likely to have a lower perception of the moral reputation of the EBA compared to their control groups counterparts.

**Table 16**

*Independent Samples Test of 'Control group' and 'Core tasks' on 'Moral index'.*

| | | | | Equal variances assumed | Equal variances not assumed |
|---|---|---|---|---|---|
| Moral index | Levene's Test for Equality of Variances | F | | ,742 | |
| | | Sig. | | ,392 | |
| | t-test for Equality of Means | t | | 1,051 | 1,052 |
| | | df | | 78 | 77,930 |
| | | Significance | One-Sided p | ,148 | ,148 |
| | | | Two-Sided p | ,296 | ,296 |
| | | Mean Difference | | ,24859 | ,24859 |
| | | Std. Error Difference | | ,23648 | ,23636 |
| | | 95% Confidence Interval of the Difference | Lower | -,22221 | -,22197 |
| | | | Upper | ,71939 | ,71915 |

## 4.5 ANOVA

Table 17 presents the ANOVA analysis of all the items measuring organizational reputation. The one-way ANOVA determines that there is no statistically significant difference between

groups for '*Overall, the EBA has a good reputation*' with F(2,116)=2,893, p=.059, '*EBA's output is of high quality*' with F(2,116)=2,361, p=.099, '*EBA is an effective organization*' with F(2,116)=2,220, p=.113, '*EBA's mission is ethically defensible (their mission is the right mission)'* with F(2,116)=0,584, p=.560, and '*EBA has a positive influence on society*' with F(2,116)=1,642, p=.111. However, the one-way ANOVA does determine that there is a statistically significant difference between groups for three items of organizational reputation. Namely, for '*EBA is a competent regulator*' with F(2,116)=8,161, p<.001, '*Decision-making in EBA follows due process'* with F(2,116)=4,308, p=.016 and '*EBA follows correct procedures*' with F(2,116)=7,802, p<.001. To examine which groups in particular differ from one another, a post-hoc is conducted for all items.

**Table 17**

*One-way ANOVA of all items measuring organizational reputation.*

| | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| O1. Overall, the EBA has a good reputation | Between Groups | 7,663 | 2 | 3,832 | 2,893 | ,059 |
| | Within Groups | 153,631 | 116 | 1,324 | | |
| | Total | 161,294 | 118 | | | |
| P1. EBA's output is of high quality | Between Groups | 5,391 | 2 | 2,696 | 2,361 | ,099 |
| | Within Groups | 132,474 | 116 | 1,142 | | |
| | Total | 137,866 | 118 | | | |
| P2. EBA is an effective organization | Between Groups | 6,374 | 2 | 3,187 | 2,220 | ,113 |
| | Within Groups | 166,500 | 116 | 1,435 | | |
| | Total | 172,874 | 118 | | | |
| P3. EBA is a competent regulator | Between Groups | 25,038 | 2 | 12,519 | 8,161 | <,001 |
| | Within Groups | 177,954 | 116 | 1,534 | | |
| | Total | 202,992 | 118 | | | |
| M1. EBA's mission is ethically defensible (their mission is the right mission) | Between Groups | 2,503 | 2 | 1,252 | ,584 | ,560 |
| | Within Groups | 248,774 | 116 | 2,145 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Total | 251,277 | 118 | | | |
| M2. EBA has a positive influence on society | Between Groups | 5,035 | 2 | 2,517 | 1,624 | ,202 |
| | Within Groups | 179,789 | 116 | 1,550 | | |
| | Total | 184,824 | 118 | | | |
| LP1. Decision-making in EBA follows due process | Between Groups | 8,948 | 2 | 4,474 | 4,308 | ,016 |
| | Within Groups | 120,464 | 116 | 1,038 | | |
| | Total | 129,412 | 118 | | | |
| LP1. EBA follows correct procedures | Between Groups | 19,958 | 2 | 9,979 | 7,802 | <,001 |
| | Within Groups | 148,361 | 116 | 1,279 | | |
| | Total | 168,319 | 118 | | | |

As the assumption stated in section 3.5 are deemed to be met in an adequate manner, the most appropriate post-hoc test is Tukey's honestly significant difference (HSD) test (Leard Statistics, 2018a). The results of this post-hoc test are presented in table 18.

For '*Overall, the EBA has a good reputation*', Tukey's HSD determines a significant difference in means between the control group and the secondary tasks treatment group of 0,617 at p=.047. This entails that the control group has significantly higher mean score than the secondary tasks treatment group on this item. For '*EBA is a competent regulator*', Tukey's HSD determines a significant difference in means between the control group and the core tasks treatment group of 1,023 at p<.001. In addition, a significant difference in means is determined between the control group and the secondary tasks treatment group, 0,985, p=.005. This entails that the control group has significantly higher mean score than both the core and secondary tasks treatment groups on this item. For '*Decision-making in the EBA follows due process*', Tukey's HSD determines a significant difference in means between the control group and the secondary treatment group of 0,662 at p=.012. This entails that the control group has significantly higher mean score than the secondary tasks treatment group on this item. For '*EBA follows correct procedures*', Tukey's HSD determines a significant difference in means between the control group and the secondary tasks treatment group of 0,996 at p<.001. This entails that the control group has significantly higher mean score than the secondary tasks treatment group on this item.

For '*Overall, the EBA has a good reputation*', there is no significant difference in means between the control and core tasks treatment group and between the core tasks and secondary tasks treatment group. For '*EBA's output is of high quality*', there is no significant difference in means between all groups. For '*The EBA is an effective organization*', there is no significant difference in means between all groups. For '*EBA is competent regulator*', there is no significant difference in means between the core tasks and secondary tasks treatment group. For '*EBA's mission is ethically defensible (their mission is the right mission)*', there is no significant difference in means between all groups. For '*EBA has a positive influence on society*', there is no significant difference in means between all groups. For '*Decision-making in the EBA follows due process*', there is no significant difference in means between the control and core tasks treatment group and the core and secondary tasks treatment group.

**Table 18**

*Tukey HSD post-hoc test for all items measuring organizational reputation.*

| | | | Mean Difference | | | 95% Confidence Interval | |
|---|---|---|---|---|---|---|---|
| Dependent Variable | (I) Group | (J) Group | (I-J) | Std. Error | Sig. | Lower Bound | Upper Bound |
| O1. Overall, the EBA has a good reputation | Control group | Core tasks | ,258 | ,257 | ,576 | -,35 | ,87 |
| | | Secondary tasks | ,617* | ,257 | ,047 | ,01 | 1,23 |
| | Core tasks | Control group | -,258 | ,257 | ,576 | -,87 | ,35 |
| | | Secondary tasks | ,359 | ,261 | ,356 | -,26 | ,98 |
| | Secondary tasks | Control group | -,617* | ,257 | ,047 | -1,23 | -,01 |
| | | Core tasks | -,359 | ,261 | ,356 | -,98 | ,26 |
| P1. EBA's output is of high quality | Control group | Core tasks | ,405 | ,239 | ,212 | -,16 | ,97 |
| | | Secondary tasks | ,482 | ,239 | ,113 | -,09 | 1,05 |
| | Core tasks | Control group | -,405 | ,239 | ,212 | -,97 | ,16 |
| | | Secondary tasks | ,077 | ,242 | ,946 | -,50 | ,65 |
| | Secondary tasks | Control group | -,482 | ,239 | ,113 | -1,05 | ,09 |
| | | Core tasks | -,077 | ,242 | ,946 | -,65 | ,50 |
| P2. EBA is an effective organization | Control group | Core tasks | ,563 | ,268 | ,094 | -,07 | 1,20 |
| | | Secondary tasks | ,307 | ,268 | ,488 | -,33 | ,94 |
| | Core tasks | Control group | -,563 | ,268 | ,094 | -1,20 | ,07 |
| | | Secondary tasks | -,256 | ,271 | ,613 | -,90 | ,39 |
| | Secondary tasks | Control group | -,307 | ,268 | ,488 | -,94 | ,33 |
| | | Core tasks | ,256 | ,271 | ,613 | -,39 | ,90 |
| P3. EBA is a competent regulator | Control group | Core tasks | 1,023* | ,277 | <,001 | ,37 | 1,68 |
| | | Secondary tasks | ,895* | ,277 | ,005 | ,24 | 1,55 |
| | Core tasks | Control group | -1,023* | ,277 | <,001 | -1,68 | -,37 |
| | | Secondary tasks | -,128 | ,280 | ,891 | -,79 | ,54 |
| | Secondary tasks | Control group | -,895* | ,277 | ,005 | -1,55 | -,24 |
| | | Core tasks | ,128 | ,280 | ,891 | -,54 | ,79 |
| | Control group | Core tasks | ,310 | ,328 | ,612 | -,47 | 1,09 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| M1. EBA's mission is ethically defensible (their mission is the right mission) | | Secondary tasks | ,003 | ,328 | 1,000 | -,78 | ,78 |
| | Core tasks | Control group | -,310 | ,328 | ,612 | -1,09 | ,47 |
| | | Secondary tasks | -,308 | ,332 | ,624 | -1,10 | ,48 |
| | Secondary tasks | Control group | -,003 | ,328 | 1,000 | -,78 | ,78 |
| | | Core tasks | ,308 | ,332 | ,624 | -,48 | 1,10 |
| M2. EBA has a positive influence on society | Control group | Core tasks | ,315 | ,278 | ,496 | -,35 | ,98 |
| | | Secondary tasks | ,495 | ,278 | ,182 | -,17 | 1,16 |
| | Core tasks | Control group | -,315 | ,278 | ,496 | -,98 | ,35 |
| | | Secondary tasks | ,179 | ,282 | ,800 | -,49 | ,85 |
| | Secondary tasks | Control group | -,495 | ,278 | ,182 | -1,16 | ,17 |
| | | Core tasks | -,179 | ,282 | ,800 | -,85 | ,49 |
| LP1. Decision-making in EBA follows due process | Control group | Core tasks | ,406 | ,228 | ,181 | -,14 | ,95 |
| | | Secondary tasks | ,662* | ,228 | ,012 | ,12 | 1,20 |
| | Core tasks | Control group | -,406 | ,228 | ,181 | -,95 | ,14 |
| | | Secondary tasks | ,256 | ,231 | ,509 | -,29 | ,80 |
| | Secondary tasks | Control group | -,662* | ,228 | ,012 | -1,20 | -,12 |
| | | Core tasks | -,256 | ,231 | ,509 | -,80 | ,29 |
| LP2. EBA follows correct procedures | Control group | Core tasks | ,560 | ,253 | ,073 | -,04 | 1,16 |
| | | Secondary tasks | ,996* | ,253 | <,001 | ,40 | 1,60 |
| | Core tasks | Control group | -,560 | ,253 | ,073 | -1,16 | ,04 |
| | | Secondary tasks | ,436 | ,256 | ,209 | -,17 | 1,04 |
| | Secondary tasks | Control group | -,996* | ,253 | <,001 | -1,60 | -,40 |
| | | Core tasks | -,436 | ,256 | ,209 | -1,04 | ,17 |

*. The mean difference is significant at the 0.05 level.

# 5. Discussion

In this chapter, the results from the previous chapter will be discussed. Furthermore, the hypotheses are reviewed to examine if they can be confirmed. Finally, the research question, '*How does external criticism affect the European Banking Authority audience's perception of organizational reputation? And to what extent can specific dimensions of reputation be affected by external criticism?',* is answered.

The data suggest that among the student sample, the scores for the three measured dimensions of the EBA's organizational reputation were mediocre. Furthermore, as can be expected from a student sample the population was mainly of a young age. The total N of 119 was enough to determine causal inferences from the data, however the results would be more robust if the group sizes would have been larger. Remarkable is that the items measuring the moral dimension of reputation had the highest means of all items even though this study has subjected the secondary treatment group to external criticism targeted at said dimension.

This study argued that audiences will have certain expectations of the EBA. When the expectations were not met, the audiences would reshape their perception of the EBA. By triggering the learning mechanism as defined by Raub & Weesie (1990) using external criticism, audiences should lower their perception of EBA's reputation. When subjected to external criticism, audiences were expected to lower their overall perception of reputation. This expectation is formulated in H1: *'If the EBA is subjected to external criticism, the overall reputation perception as reported by audiences in the treatment groups is lower.*'. The t-test conducted for H1 found that this expectation cannot be confirmed. When audiences are subjected to the EBA facing external criticism, they are not more likely to have a significantly lower overall perception of organizational reputation. However, the post-hoc test found that respondents from the secondary treatment group did score the EBA significantly lower on the overall reputation item than their control group counterparts. A probable explanation for this is that the nature of treatment 1, external criticism targeted at the core tasks, is not grave enough for the respondent to decide to reshape their perception or, their perception is already low and the treatment does not clash with their current perception of the EBA. A probable explanation is illustrated by Barnett (2012). He argues that punishing an organization for misconduct is a complex task. It requires an assessment of the organization's misconduct by the audience as well as an assessment of organization's character. Furthermore, the probability of an audience

punishing an organization does not only depend on the nature of the misconduct but also on the positive moral capital of an organization (Godfrey, 2005). Audiences take the overall social performance, its record of socially irresponsible and responsible acts, into account when making an assessment of the organizational character (Barnett, 2007; Godfrey, 2005). When an organization has accumulated positive moral capital and has a good overall social performance, audiences may choose to abstain from punishment and not lower their perception of the EBA's reputation (Barnett, 2012; Godfrey, 2005). It seems that the EBA can get away with this kind of misconduct.

Furthermore, in H2: 'If the EBA is subjected to external criticism targeted at its core activities, the perception of performative reputation as reported by audiences in the core tasks treatment group is lower.', this study expected that audiences are capable to learn and will lower their perception of a specific dimension of reputation if that dimension is targeted with external criticism. The dimension targeted in H2 is the performative dimension using external criticism targeted at the core tasks of the EBA. The t-test conducted for H2 found that this expectation can be confirmed. When audiences are subjected to the EBA facing external criticism targeted at its core tasks, they are more likely to have a significantly lower perception of performative reputation. While the t-test is conducted with an index of all performance items, the post-hoc shows that the external criticism only significantly affects item P3. 'EBA is a competent regulator'.

Moreover, this study had a similar expectation when audiences are subjected to the EBA facing external criticism targeted at its secondary tasks. Here, it is hypothesized that audiences will have a lower perception of the moral dimension of reputation. This expectation is formulated in H3: '*If the EBA is subjected to external criticism targeted at its secondary activities, the perception of moral reputation as reported by audiences in the secondary tasks treatment group is lower.'.* The t-test conducted for H3 found that this expectation cannot be confirmed. When audiences are subjected to the EBA facing external criticism targeted at its secondary tasks, they are not more likely to have a significantly lower perception of moral reputation. While treatment 2, external criticism targeted at the secondary tasks, did not significantly affect items measuring the moral dimension, the post-hoc finds that it did affect items O1 (as is mentioned above), P3, LP1 and LP2.

There are three remarkable findings here. First, both treatment groups had a significantly lower mean score for item P3 compared to the control group. This is remarkable because treatment 2 was not targeted at the performative dimension but did significantly affect item P3. A probable explanation for this is that instead of lowering their perception of the EBA's overall reputation, the audience judged the EBA on its competence. This study has therefore had the wrong expectation of the audiences interpretation of the treatments.

Second, instead of the moral dimension treatment 2 significantly affects the legal-procedural dimension. Respondents of the secondary treatment group did punish the EBA for its moral misconduct but instead of lowering their perception of its moral reputation, they judged that the EBA had not followed due process during decision-making and had fallen short in following correct procedures. A probable explanation for this is that respondents in the secondary treatment groups considered the revolving door scandal a legal-procedural issue rather than a moral issue. Along the same lines, treatment 2 might not have addressed the right image in the perspective of the audience. Therefore, a possible explanation could be that the treatment was not the right one to address the perception of the moral dimension.

Third, it seems that, when taking all items into account, treatment 2 has a greater effect on reputation than treatment 1. While this study did not expect a greater effect of treatment 1 on reputation compared to treatment 2 or vice versa, it is worth noting. One could argue that the core tasks, which are the main tasks of the EBA, would be valued higher by audiences than the secondary tasks. And thus it might be expected that criticism on 'more important' tasks would yield a greater effect on the perception as a whole. However, as is established in the theoretical framework, multiple audiences have multiple expectations and priorities. Audiences that directly benefit from the EBA's regulations being of high quality will perceive the core tasks as more important compared to a student. To give a better educated answer for this peculiarity, more in-depth and comparative studies on how different audiences interpret the images of the agency are needed.

Now on to answer the research question, '*How does external criticism affect the European Banking Authority audience's perception of organizational reputation? And to what extent can specific dimensions of reputation be affected by external criticism?'.* External criticism has a negative effect on how a student audience perceives the EBA's reputation. In addition, targeted

criticism can also negatively affect a specific dimension of reputation. This entails that the EBA is actually punished by audiences when it misbehaves.

# 6. Conclusion

Several studies have studied European regulatory agencies through the reputational lens. None, however, have studied the effect of reputational threats on the multiple dimensions of reputation through the agency-audience's perspective. Here, this study has taken a novel approach. It has employed a rigorous experiment to draw causal inferences which prove that external criticism does affect the perception of agency-audiences and can affect a specific dimension of reputation. Therefore, the study implicates that regulatory agencies are punished for their misconduct. The research question, '*How does external criticism affect the European Banking Authority audience's perception of organizational reputation? And to what extent can specific dimensions of reputation be affected by external criticism?'* was answered using an the data from the experiment, for which a student sample was consulted. Respondents were presented with a neutral statement about the EBA, or with one of two treatment statement. The treatment statements consisted of external criticism targeted at either the core tasks or the secondary tasks of the EBA and they were designed to either affects the respondents perception of, respectively, the performative or moral dimension of reputation. The data from the experiment was employed to answer three hypotheses: H1 *'If the EBA is subjected to external criticism, the overall reputation perception as reported by audiences in the treatment groups is lower.*', H2 '*If the EBA is subjected to external criticism targeted at its core activities, the perception of performative reputation as reported by audiences in the core tasks treatment group is lower.'* and H3 '*If the EBA is subjected to external criticism targeted at its secondary activities, the perception of moral reputation as reported by audiences in the secondary tasks treatment group is lower.'*. To analyse the results, two sample t-test were conducted. To further examine the effects of the treatments, an one-way ANOVA and Tukey's HSD post-hoc test were conducted. The results confirmed H2, and rejected H1 and H3. Therefore, this study proves that external criticism can affect the perception of an agency-audiences as well as that targeted criticism can affect a specific dimension of reputation. Furthermore, it clearly illustrates that the audience perspective needs more in-depth research and that the multidimensional measurement tool for organizational reputation requires further refinement before its can be widely applied. However, this study has provided a stepping stone for future studies.

# 7. Limitations and future research

Just like any other, this study has limitations that need to be acknowledged. This will be done first. Subsequently, recommendations for future research will be formulated.

The first limitation could result from the voluntary basis of the survey. Because participating in the survey is on voluntary basis, the results may suffer from self-selection bias (Cantuaria & Blanes-Vidal, 2019). This means that the voluntary basis may result in people with certain characteristics being more likely to respond.

The second limitation is the scope of this study. This study examines a supranational European regulatory agency. Therefore, any conclusions drawn may not be fully generalizable to its national counterparts, as they operate on the national level and thus in a different environment with different audiences. Moreover, the external validity of this study is limited because it only takes one agency in account that solely operates as a financial regulator. Future studies should compare multiple agencies in different counties (Overman et al., 2020)

The third limitation is that this study primarily takes one type of audience into account. As Carpenter states, "*what one audience sees is not necessarily what another audience sees*" (2010, 34). To gain a more generalizable and better understanding of the effect of reputational threats on the perceptions of audiences, more different types of audiences should be studied. In addition, the characteristics of the different audiences should be studied thoroughly to gain a deeper understanding of the different ways of interpretating information that is related to the dimensions of reputation. Furthermore, instead of a student sample, audiences that are closer to the agency such as direct stakeholders should be studied in further research.

The fourth limitation is the size of sample. While the sample size (N=119) was large enough to draw causal inferences, the results would be more robust if the sample size was even larger.

The fifth limitation is that this study employs a tool that is only capable of measuring three out of the four dimensions of reputation as defined by Carpenter & Krause (2011). It therefore deviates from their work. While no statistical evidence has been found for the technical dimension of reputation by Overman et al. (2020), it should not be ignored. In addition, while Overman et al. (2020) developed the tool employed in this study for the European Chemical Agency, the tool might not fit for all European regulators. Therefore, the tool needs further testing in different regulatory contexts. Future research should reattempt to measure all four dimensions of reputation and should test the measurement tool in different regulatory fields.

The first recommendation is that future studies should consider the network embeddedness of an agency. Several studies found that the position of an organization affected its reputation as well as organization outputs (Kim, Andrew, & Jung, 2020; Pilny, Atouba, & Riles, 2014; (Provan, Huang, & Milward, 2009; Schalk, Torenvlied, & Allen, 2009). It could be interesting to study how network embeddedness and within network interactions affect organizational reputation and agency-audience perceptions.

The second recommendation for further research is to study the ESFS. As there are three main regulatory agencies under the ESFS, it would be interesting to study all three of them. They all operate in the same field, European financial services, and therefore it would be interesting to conduct comparative research with multiple types of audiences in several different countries.

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## Appendices

Appendix A: Survey

# EBA study - for the students

Start of Block: Intro

Intro_text Welcome to this survey conducted by Mr. Kelvin Koop and Dr. Dovilė Rimkutė (Leiden University). Please read the information below before you continue.

**Aim of the study:** This study aims to examine the organizational reputation of the European Banking Authority (EBA). We are interested in how EU citizens perceive the multidimensional reputation of the EBA.

**Duration:** The survey takes around 5 - 8 minutes.

**Potential risks:** Participation in this study does not create any risks to participants or their organizations. At the end of the survey, you will receive a detailed description of this study.

**Anonymity:** Your information is and will remain anonymous. We will never ask you to give your name and will not disclose any identifying information. The data is stored, evaluated and communicated in an anonymous form.

**Right of revocation:** Your participation in this study is completely voluntary. If you do not wish to participate in the study, you will not be at a disadvantage. You can revoke your agreement to participate in the study at any time without giving reasons and without disadvantages for you.

**Use of your survey input:** Your input to this survey will be used to write a Master thesis on the EBA and its organizational reputation. The Master thesis is conducted by Mr. Kelvin Koop, supervised by Dr. Dovilė Rimkutė.

If you have any questions about this study, please contact Kelvin Koop (e-mail: k.c.koop@umail.leidenuniv.nl).

Consent CONSENT FORM I participate voluntarily in the study. I was informed about the nature, scope, importance of the study, and any possible side effects. I give my permission to the principal investigators of this study to process my input and use my input for scientific outputs:

- ○ Yes, I give my permission. Start the survey. (1)
- ○ No, I do not give my permission and do not agree to take the survey. End the survey. (2)

*Skip To: End of Survey If CONSENT FORM I participate voluntarily in the study. I was informed about the nature, scope, im... = No, I do not give my permission and do not agree to take the survey. End the survey.*

End of Block: Intro

Start of Block: Part 1

Part 1 text **Part I: The European Banking Authority and its core role**
We would like to ask you to carefully read the following text and answer the questions that follow.

End of Block: Part 1

Start of Block: Block A

**Control Group** The European Banking Authority (EBA) is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

The main task of the EBA is to contribute to the creation of the European Single Rulebook in banking whose objective is to provide a single set of harmonized prudential rules for financial institutions throughout the EU. The EBA was established on 1 January 2011 as part of the European System of Financial Supervision and took over all existing responsibilities and tasks of the Committee of European Banking Supervisors.

End of Block: Block A

Start of Block: Block B

**Core tasks** The European Banking Authority (EBA) is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

However, the EBA has fallen short of its core responsibility. More specifically, the EBA has been criticized for choosing to drop an investigation into Danske Bank over its money laundering scandal. The EBA rejected an internal report that identified a number of supervisory failings at the Danish national bank. The report revealed that more than €200bn of illicit funds from Russian accounts have funneled into the continental banking system.

End of Block: Block B

Start of Block: Block C

**Secondary task** The European Banking Authority (EBA) is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

However, the EBA has breached ethical standards. More specifically, the EBA has been criticized for mishandling its conflicts of interest issues resulting in a revolving door scandal. Adam Farkas, executive director of the EBA, has become a CEO of one of the major financial lobby associations that, according to the EU Transparency Register, spends upward of €5 million a year, lobbying EU institutions on regulatory and capital markets issues.

End of Block: Block C

Start of Block: Part 2

Part 2 text **Part II: Reputation of the European Banking Authority**
The following statements are about the reputation of the European Banking Authority (EBA). We are interested in how you perceive various reputational aspects of the EBA.

Please indicate to which extent do you agree with the following statement (1 – Fully disagree; 7 – Fully agree):

| | Fully disagree (1) | Disagree (2) | Somewhat disagree (3) | Neither disagree nor agree (4) | Somewhat agree (5) | Agree (6) | Fully agree (7) |
|---|---|---|---|---|---|---|---|
| Overall, the EBA has a good reputation (4) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

Page Break

Reputation Please indicate to which extent do you agree with the following statements about *various aspects of the EBA's reputation* (1 – Fully disagree; 7 – Fully agree):

| | Fully disagree (1) | Disagree (2) | Somewhat disagree (3) | Neither disagree nor agree (4) | Somewhat agree (5) | Agree (6) | Fully agree (7) |
|---|---|---|---|---|---|---|---|
| EBA's output is of high quality (1) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| EBA is an effective organization (2) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| EBA is a competent regulator (3) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| EBA's mission is ethically defensible (their mission is the right mission) (4) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| EBA has a positive influence on society (5) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Decision-making in EBA follows due process (6) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| EBA follows correct procedures (7) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

End of Block: Part 2

Start of Block: Relevance

Manipulation check  Please indicate to which extent do you agree with the following statement:

In the past years, the EBA faced some public criticism about scandals concerning its regulatory or ethical conduct.

- ○ Fully agree  (9)
- ○ Agree  (10)
- ○ Somewhat agree  (11)
- ○ Neither disagree nor agree  (12)
- ○ Somewhat disagree  (13)
- ○ Disagree  (14)
- ○ Fully disagree  (15)

End of Block: Relevance

Q55 **Part III: Background questions**

This survey concludes with a few questions about the demographic characteristics of participants. These questions serve to assess the generalizability of the study. We will not disclose characteristics of individual participants in any way, nor will we compare responses between individual organizations.

Education In which of the following degrees are you currently enrolled in:

- ○ Graduate degree / Bachelor's degree (BA) (3)
- ○ Post-graduate degree / Master's degree (MA) (4)
- ○ Ph.D. degree / doctorate degree (5)
- ○ Other, please specify: (6) _____

Organization
What do you study in your current degree?

_____

Gender What is your gender?

- ○ Male (1)
- ○ Female (2)
- ○ Other (3)
- ○ Prefer not to say (5)

Age What is your age in years?

| | 18 | 28 | 39 | 49 | 59 | 69 | 80 | 90 | 100 |
|---|---|---|---|---|---|---|---|---|---|
| Years () | | | | | | | | | |

End of Block: Part 3

Start of Block: Part 4

60

Part 4 text **Part IV: Debriefing: the aims of this study**

The aim of this study is to explain how diverse external claims affect the organizational reputation of regulatory agencies. The participants of this survey have received either a neutral text about the EBA or were randomly assigned to one of two treatment groups. In the first treatment group, the participants have received a text about recent events criticizing the EBA for dropping an investigation into Danske Bank over its money laundering scandal. In the second treatment group, the participants have received a text about recent events criticizing the EBA over its revolving door scandals including the Director's move to a powerful finance lobby group.

This experimental design enables us to examine which external claims are more likely to affect regulatory agencies' reputation in the eyes of their stakeholders.

---

Comment If you have any general comments, please specify them below:

_____

_____

_____

_____

_____

End of Block: Part 4

Start of Block: End

End **End of survey**

Thank you for your participation in this survey.

You can complete your participation in this survey by clicking the button below.

End of Block: End

Start of Block: Last page

Appendix B: Homogeneity test

**Figure x.**

*Tests of Homogeneity of Variances*

| | | Levene Statistic | df1 | df2 | Sig. |
|---|---|---|---|---|---|
| Overall, the EBA has a good reputation | Based on Mean | ,772 | 2 | 116 | ,464 |
| | Based on Median | ,686 | 2 | 116 | ,506 |
| | Based on Median and with adjusted df | ,686 | 2 | 115,344 | ,506 |
| | Based on trimmed mean | ,818 | 2 | 116 | ,444 |
| EBA's output is of high quality | Based on Mean | ,793 | 2 | 116 | ,455 |
| | Based on Median | ,570 | 2 | 116 | ,567 |
| | Based on Median and with adjusted df | ,570 | 2 | 108,803 | ,567 |
| | Based on trimmed mean | ,743 | 2 | 116 | ,478 |
| EBA is an effective organization | Based on Mean | ,114 | 2 | 116 | ,893 |
| | Based on Median | ,084 | 2 | 116 | ,920 |
| | Based on Median and with adjusted df | ,084 | 2 | 115,540 | ,920 |
| | Based on trimmed mean | ,111 | 2 | 116 | ,895 |
| EBA is a competent regulator | Based on Mean | 1,913 | 2 | 116 | ,152 |
| | Based on Median | 1,554 | 2 | 116 | ,216 |
| | Based on Median and with adjusted df | 1,554 | 2 | 108,385 | ,216 |
| | Based on trimmed mean | 1,925 | 2 | 116 | ,151 |
| EBA's mission is ethically defensible (their mission is the right mission) | Based on Mean | 5,101 | 2 | 116 | ,008 |
| | Based on Median | 3,697 | 2 | 116 | ,028 |
| | Based on Median and with adjusted df | 3,697 | 2 | 98,527 | ,028 |
| | Based on trimmed mean | 4,822 | 2 | 116 | ,010 |
| EBA has a positive influence on society | Based on Mean | ,106 | 2 | 116 | ,899 |
| | Based on Median | ,209 | 2 | 116 | ,811 |
| | Based on Median and with adjusted df | ,209 | 2 | 102,027 | ,812 |
| | Based on trimmed mean | ,102 | 2 | 116 | ,904 |
| Decision-making in EBA follows due process | Based on Mean | 2,891 | 2 | 116 | ,060 |
| | Based on Median | 1,660 | 2 | 116 | ,195 |
| | Based on Median and with adjusted df | 1,660 | 2 | 114,511 | ,195 |
| | Based on trimmed mean | 3,289 | 2 | 116 | ,041 |

| | | | | | |
|---|---|---|---|---|---|
| EBA follows correct procedures | Based on Mean | ,459 | 2 | 116 | ,633 |
| | Based on Median | ,245 | 2 | 116 | ,783 |
| | Based on Median and with adjusted df | ,245 | 2 | 110,228 | ,783 |
| | Based on trimmed mean | ,454 | 2 | 116 | ,636 |