

**Rethinking the Relationship Between Reputation and Legitimacy:
A Social Actor Conceptualization ¹**

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ABSTRACT

Legitimacy and reputation are both perceptions of approval of an organization's actions. Legitimacy is a perception that organizations conform with taken-for-granted standards. Reputation is a perception that organizations are positively distinctive within their peer group. While the need for inclusion and distinction may seem somewhat contradictory on its face, we maintain that both functional demands are grounded in an organization's adopted social identities, or social identity referents, characterized herein as social category memberships. Social identities constitute an organization's reference group and provide stakeholders with standards by which assessments of the organization are made. Organizations are seen as having legitimacy when they comply with the *minimum standards* of a particular social identity prototype—a prototypical X-type organization. Organizations have good reputations when they are viewed favorably relative to the *ideal standard* for a particular social identity—an ideal, or esteemed, X-type organization. Conventional thinking holds that legitimacy is a requirement of all organizations whereas reputation is a desirable, but not essential property. This paper argues that, from the perspective of identity theory, reputation and legitimacy are complementary, reciprocal concepts, linked to the dual identification requirements: who is this actor similar to and how is this actor different from all similar others. The implications of this “fresh perspective” for organizational reputation scholarship are discussed.

Organizational reputation and legitimacy are both perceptions of approval of an organization's actions based on stakeholders' evaluations (Rao, 1994; Ruef and Scott, 1998; Lawrence, 1998; Deephouse and Carter, 2005; Elsbach, 2006). Reputation and legitimacy represent intangible assets that firms rely on to enhance their performance and chances of survival (Oliver, 1991; 1997; Rindova, Pollock, and Hayward, 2006). Yet important differences exist between the two concepts. As Deephouse and Carter (2005) note, organizations have legitimacy when they conform to social expectations associated with a particular population. By contrast, reputation is based on distinguishing the organization from its peers. Thus, the conferring of legitimacy and positive reputation seem to be the products of fundamentally different forms of assessment (Deephouse, 1999). Counter to this supposition, we will argue that legitimacy and reputation arise from common social comparison processes, whereby stakeholders use institutionalized standards to assess and compare organizations (Rindova and Fombrun, 1999).

Past research addressing the link between reputation and legitimacy tends to emphasize the differences in their underlying properties (Deephouse, 1999; 2000; Rindova et al., 2006; Rindova, Petkova, and Kotha, 2007; although see Rao, 1994; Elsbach and Kramer, 1996). Our objective is to alter the prevailing views among organizational scholars regarding the relationship between reputation and legitimacy. Specifically, we will portray this as a complementary, reciprocal, and interdependent relationship as opposed to antagonistic and one-sided. Historically, legitimacy has been viewed as being essential to an organization's well-being (e.g., Oliver, 1991; Suchman, 1995). While legitimacy is portrayed as critical to organizational survival, reputation merely makes a legitimate organization better. The portrayal of the relationship between

legitimacy and reputation as fundamentally antagonistic is reflected in the common observation that the pressure to conform dampens the impulse to be different. This characterization is reflected in Deephouse's (1999) observation that organizations strive to maintain a strategic balance – being similar enough to an established reference group to be seen as legitimate while also differentiating themselves from their competitors. While our intent is not to discredit these prevailing views, we do hope to demonstrate the theoretical and practical merits of an alternative perspective.

A joint treatment of reputation and legitimacy begins, we believe, with understanding the social conditions that give rise to these perceptions (Deephouse and Carter, 2005). Neither perception is formed in a vacuum. We argue that reputation and legitimacy are grounded in meaningful comparisons between organizations that are linked to standards that stakeholders use to assess the appropriateness and quality of an organization's behavior. Thus, rather than highlighting the differences between reputation and legitimacy, our intent is to emphasize their common link to institutionalized social standards that make systematic comparison between organizations possible and meaningful. Our contribution is to show that reputation can be viewed as an extension of legitimacy and that the two perceptions are connected through an organization's adoption of particular social identities. By acknowledging the role that adopted social identities play in defining standards of quality and excellence upon which reputation is based, we can better understand how organizations create reputation enhancing strategies.

The counterintuitive view of the relationship between legitimacy and reputation we put forward is the result of our having examined both concepts using a single

theoretical perspective: the social-actor conception of organizational identity. Thus, our treatment of reputation and legitimacy is an example of refining the theoretical relationship between two concepts by considering both from the perspective of a third, more fundamental concept. Identity, from a social actor perspective, is the fundamental concept to explaining the organization.

To date, a number of scholars have suggested that organizational identity is the foundation of corporate reputation (Fombrun, 1996; Scott and Lane, 2000; Gioia, Schultz, and Corley, 2000; Davies, Chun, de Silva, and Roper, 2001; Pruzan, 2001; Whetten and Mackey, 2002; Fombrun and Van Riel, 2003; Brown, Dacin, Pratt, and Whetten, 2006; Illia and Lurati, 2006), and while not as prominent, scholars have also argued that legitimacy is based on identity (Rao, 1994; Elsbach and Kramer, 1996; Rao, Monin and Durand, 2003). What we find noteworthy is how few attempts have been made to examine the relationship between legitimacy and reputation from the perspective of organizational identity (see, Whetten and Mackey, 2002). There is also not a great deal of scholarship examining identity-related strategies taken by organizations to manage both kinds of perceptions (although, see Elsbach, 2006).

Adopting a social actor view of organizations (Whetten, 2006), we argue that organizational identity is an organization's coherent self-definition (roughly: "who we are as an organization"), invoked as a common frame of reference by "member-agents" in the course of acting or speaking on behalf of their organization. We further posit that this shared working definition of an organization is empirically tethered to the organization's distinguishing features and attributes, which, in turn, reflect the organization's membership in self-defining social categories—social identities. Social identities are

described elsewhere as “classification schemes” that members and outsiders use to identify the organization (Albert and Whetten, 1985: 268-269), as categories that connote membership to a particular identity class (Zuckerman, 1999: 1405) and as the coupling of a label with specific schemata that shape the kinds of expectations that audience members have of an organization (Hannan, Pólos, and Carroll, 2007: 101-102).⁴

Self-selected social categories / identities, such as type of organization, forms of ownership and governance, and product and service categories, provide organizing logics or schemas that inform the articulation of an organization’s mission and purpose and that function, subjectively, as “ultimate whys” when organizations are confronted with fork-in-the-road organizing choices or are required to justify profound, controversial actions, (e.g., “This is/was the appropriate course of action for this type of organization,” [Whetten, 2006]). Social category memberships also link organizations with identity-specific stakeholders, such as regulators, potential stockholders, employees, and customers (Fombrun 1996). They also facilitate interorganizational comparisons of similarity and difference and are associated with category-defining accountability standards (Rindova and Fombrun, 1999; Hsu and Hannan, 2005). Thus, through social identity selection organizations become linked to the crucial social and cognitive mechanisms through which assessments of legitimacy and reputation emerge.

Our examination of the interface between legitimacy and reputation is structured according to the following outline. We first use the concept of organizational identity to flesh out the posited link between an organization’s social category memberships and

⁴ Both Zuckerman (1999) and (Hannan et al., 2007) use the term social identity. In Zuckerman’s case social identities constrain a firm’s identity by defining its legitimacy requirements and specifying its audience, and for Hannan et al. identity, more generally, refers to a “virtual social identity” that sets expectations that audiences have of an organization (2007: 101-102). We subscribe to the same use of the term “social identity” as offered by these scholars.

reputation and legitimacy. Second, we discuss how category-specific accountability standards are used by stakeholders to formulate assessments of an organizational actor's reputation and legitimacy. Third, we examine the heart of the matter: how organizations manage the inherent tension between legitimacy and reputation assessments, including how organizations, in a form of "cultural entrepreneurship," invoke standards of legitimacy to justify novel reputation enhancing strategies (Lounsbury and Glynn, 2001). Finally, we discuss the implications of our conceptual refinement for scholarship involving organizational identity, reputation, and legitimacy.

A social actor conception of organizational identity

A hallmark of the growing organizational identity literature is its lack of consensus regarding the concept's core meaning and its use as a unique organizational studies explanandum (Corley et al. 2006; Whetten, 2006). For some scholars, identity is merely a metaphor (akin to "corporate personality") for describing how one organization differs from another (Davies et al. 2001). For others identity is characterized as the cultural stage upon which organizational activity is played out (Pruzan, 2001). It is common for scholars to examine organizational identity from the bottom-up – focusing on members' perceptions of the organization and consequent social identification (Ashforth and Mael, 1989; Dutton, Dukerich, and Harquail, 1994; Whetten, 2007). Taken as a whole, organizational identity scholarship to date has adopted an emergent, interpretive perspective which, not surprisingly, has yielded a highly situational and fluid view of the subject matter (Gioia, Schultz, and Corley, 2000; Glynn, 2000; Golden-Biddle & Rao, 1997; Pratt & Foreman, 2000).

As a point of contrast, we believe the study of legitimacy and reputation calls for an organization-as-social actor conception of organizational identity, which can roughly be portrayed as an outside-in, top-down view of organizations and their identifying features (Whetten, 2006). This perspective acknowledges the unique social status afforded “organizations” in modern society—invested with roughly the same rights and responsibilities as individuals (Coleman, 1982; Perrow, 1979; Czarniawska, 1997). As a condition of successful social interaction, it follows that organizational actors, like individual actors, must possess identifying features capable of rendering them recognizable as particular types of actors, as well as making them distinguishable from all similar actors. In accordance with the convention in the individual identity literature of equating identity with a person’s self-view, we posit an analogous shared conception of an organization that is phenomenologically grounded in the organization’s institutionalized practices and policies. Identity is akin to what Selznick (1957) referred to as “character,” expressed as an actor’s irreversible commitments. We further posit that when members of an organization formally act or speak on behalf of their organization they are capable of distinguishing between their own views of the organization, the views held by their coworkers or salient stakeholders, and what functions within local discourse as the organizational actor’s self-view. This conceptualization builds on Albert and Whetten’s (1985) definition of organizational identity as the subset of all organizational features or attributes that are generally experienced as central, enduring, and distinctive (hereafter, CED). As implied by this characterization, and in line with Morgeson and Hoffman’s (1999) approach to cross-level theorizing, organizational identity is

formulated herein as the functional and structural analogue of individual identity (Whetten, 2006).

Functional features of identity

Identity theory posits a universal set of human needs, including coherence, continuity, and a positive self-image (Baumeister, 1998). Analogous views have been expressed among organizational scholars. For example, in accordance with her telling observation that whereas chronic mistaken identity is troublesome for individuals it is potentially a fatal flaw for organizations, Czarniawska (1997) posits a universal organizational need for recognizability. Also, organizational scholars writing in the institutional theory tradition have long held that legitimacy is an essential requirement for all organizations (Scott, 2001). We have elected to highlight these so-called universal organizational actor needs because of their parallel meanings—membership in taken-for-granted social categories is the principle means whereby organizations gain legitimacy.

Some identity theorists have posited that individuals often prefer identifying features that satisfy multiple, seemingly incompatible needs—in particular, the equally compelling needs for assimilation (similarity) and individuality (difference). These contradictory needs are expressed as the “paradox of identity” (Brewer, 1991; Lounsbury and Glynn, 2001). Following suit, we hold that organizational actors, like human actors, require identities that specify both who they are similar to and how they are different from similar others (Whetten, 2006). We refer to this as the *essential identity function*, in that identification presumes knowledge of an actor’s unique location in N-dimensional space (Brewer, 1991; Hogg & Terry, 2000; Whetten, 2006).

According to the CED definition, an organization's identifying features address both needs by locating an organizational actor within a particular social group with legitimate standing and by distinguishing the organization from other members of that group. Central and enduring attributes constitute the essential features of an organization, in the sense that if they were removed the result would be a different kind of organization (van Rekom and Whetten, 2007). Generally speaking, they are also the attributes that an organization shares with similar others, in the form of shared memberships in self-selected social categories. By contrast, distinctive (individuating) attributes separate an organization from its peers. Thus, we argue that CED organizational attributes exemplify the principle of "optimal distinctiveness," spoken of by Brewer (1991), by satisfying an organization's twin needs for inclusion and differentiation and by preventing an organization's self-defining attributes from becoming too unique or too similar.

Structural features of identity

Contemporary identity theory generally posits a composite, coherent identity, or self-view, made up of multiple identity referents forming a "nested order" (Brewer and Gardner, 1996). This imputed structural order has been characterized by some authors as a hierarchical control system (Mischel and Morf, 2003), in that higher-order identities (prior choices) constrain the selection of lower-order identities (subsequent choices). In practice this hierarchical arrangement requires backwards-compatibility among identity choices, constraining the subsequent selection of identity referents. The presumed function of lower-level identity referents is to clarify or extend previous, higher-level choices. As an example, entrepreneurs creating a bank must decide which kind of bank

they want to be (e.g. commercial versus investment). Once this choice is made, the bank must further differentiate itself from other banks through further category-consistent elaboration of the identity (e.g. we are a commercial bank that offers small business loans to local retailers).

The various identity referents comprising an individual's composite identity are typically stratified on three levels. The categories positioned at the highest level of this identity hierarchy are referred to as *social identities*, consisting of salient group memberships, where groups are construed broadly to include demographic categories and other social categories, as well as virtual and interacting groups (Brewer and Gardner, 1996). The middle level of the identity referent hierarchy consists of *relational identities*—interpersonal relationships of various kinds, including interpersonal relationships, roles, and intimate associations. The third, and lowest, category consists of *individuating identities*, or “personal” characteristics, including character traits and acquired skills and abilities. Figure 1 depicts this three-level structural alignment among the principle categories that make up an individual's composite identity. We intend to demonstrate the merits of an analogous conception of organizational identity.

[Insert Figure 1 about here]

Institutional theory provides the intellectual scaffolding for making cross-level comparisons between the structure of individual and organizational identifying features. Sociologists characterize institutions as taken-for-granted social categories constituting a particular social structure that provide meaning and justify actions undertaken by humans and other actors operating within that social structure (Douglas, 1986). These categories are nominally arrayed in a hierarchical fashion, according to the breadth of the scope of

activity they cover. At the highest level of this hierarchy are broad social institutions that distinguish one sector of society from another—things like: business, health care, education, government (Friedland and Alford, 1991). Narrower categories might deal with type of ownership, geographical domain, and for businesses, position in the value chain (Aldrich, 1999; Haveman & Rao, 1997; Lounsbury & Ventresca, 2002; Porac et al., 2002; Rao, Monin, & Durand, 2003).

Founders of organizations, and subsequent agents of the organization, are thus forced to declare their organization's "institutional affiliations" through a series of logically ordered choices from the available menu of organizing options in a process referred to as bricolage (Scott, 2001). Using the language of identity theory, each of these choices involves the adoption of a particular social identity, broadly characterized as an identifying feature adopted by an actor, signified as the membership requirements of a nominal group. Thus "organizing" and "identifying" are mirror images of the ongoing organizational articulation project, in that a) consequential organizing choices become instantiated as identifying organizational features, and b) identifying organizational features both inform and constrain subsequent organizing choices (Whetten, 2006). This parallelism is further reflected in the fact that for organizational actors identification is largely a categorical phenomenon. That is, an organization's identity resides in its composite set of self-categorizing choices, leading it to be viewed as a particular type of organization. An organization that cannot situate itself within an accepted set of categories will likely find it difficult to acquire the resources it needs to get off the ground and survive (Zuckerman, 1999).

It follows that when organizational identity articulation is conceptualized in this manner, particular attention must be given to an organization's early organizing choices, especially those involving higher-order social categories, and their long term, path-defining effects.

Identity and accountability standards

Institutional theory also provides an important conceptual bridge connecting the similarities between legitimacy and reputation and nicely extends the principle of optimal distinctiveness to the institutional level. Organizational identity's link to external assessments of the organization (reputation and legitimacy) is based on *accountability standards* that define norms of appropriate behavior and esteemed performance among organizations sharing a particular social category. In our theorizing here, our use of accountability standards is similar to Rindova's and Fombrun's (1999) definition of performance standards.

In a very real sense, social identities form the ontological basis of the organization, inasmuch as internal and external audiences make assumptions about how an organization should behave based on its categorical memberships. For example, when an organization identifies itself as belonging to the business category, stakeholders will assume that the main purpose of the organization is to make a profit and that the organization will adopt common features of other for-profit businesses. Businesses also have additional ethical and regulatory constraints placed on them that shape their actions. By providing consumers, investors, and other stakeholders with a set of expectations, an organization's categorical profile makes predictable organizational activity and accurate valuation possible (Zuckerman, 1999). Indeed, without identity categories like

commercial bank or dot-com retailer, analysts, investors, and other third-party evaluators would find it difficult to recognize an organization, let alone assess its value or quality. Firms belonging to the same category can be assessed according to a common metric – a process described as commensuration (Espeland and Stevens, 1998). By associating themselves with a group that can be evaluated by common standards and metrics, organizations make themselves known to the public and become assessable. Establishing this social layer of identity, then, is crucial to the organization's existence and survival and, for this reason, forms the core of an organization's CED features.

The accountability standards associated with each category define how an organization within that category *should* behave. Industry categories, for example, convey a certain set of standards and criteria used to classify organizations by industry type. They also serve as a common standard for assessing the relative excellence or desirability of all organizations within an industry category. Importantly, with reference to our treatment of legitimacy and reputation, we conceive of accountability standards as performing both functions.

On one hand, accountability standards define the *minimum criteria* that a prototypical organization should satisfy—that is, they constitute the standards for membership within a particular social identity. On the other hand, accountability standards also indicate the performance standard that an organization must achieve in order to be considered *ideal* or highly-esteemed for an organization of that particular type. Accountability standards, then, indicate not only the minimum requirements for membership but also the highest standards to which all members aspire.

We, thus, might conceive of accountability standards as being distributed along a continuum (as depicted in Figure 1). At their base level, standards indicate requirements for membership. But once an organization has proven that it belongs, additional accountability standards exist that are extensions of those minimum standards. These elevated standards specify what an organization must do to be considered distinguished among its peers. While the minimum standards are associated with sanctions for failing to live up to the basic requirements of category membership, including the possibility of expulsion, (Hannan, Carroll, and Polos, 2007), the ideal standards are coupled with the intangible reward of esteem. Organizations are not required to meet those ideal standards to qualify as a certain type of organization, but doing so usually guarantees some form of reward, such as an enhanced reputation. Similarly, minimum standards imply a nominal distinction (either an organization belongs to an identity category or it does not); while elevated standards stratify organizations on an interval scale of desirability.

[Insert Figure 2 here]

Figure 2 provides a second illustration of the dual function performed by accountability standards. A minimum standard for group membership makes possible *between-category* classifications of organizations. We might say that if an organization's CED features correspond to the minimum standards of a known social identity, then it is considered that type of organization and it becomes subject to the accountability standards pertaining to organizations belonging to that category. Once an organization satisfies the minimum standards of membership within a particular identity category, elevated standards assist stakeholders in making *within-category* distinctions, a sort of rank order according to how well each member matches up against the ideal standard for

that group—what all organizations within a category aspire to become. Returning to our bank example, minimum standards form the boundaries of what it means to be a commercial or an investment bank. Once an organization satisfies the minimum criteria for being a commercial bank, it then becomes subject to elevated standards that define what it means to be an *excellent* commercial bank. The commercial bank naturally would strive to excel according to these ideal standards to increase its chances of survival.

The relationship between legitimacy and reputation

We now turn to the heart of our argument: using a social actor conceptualization of identity to propose a complementary, reciprocal relationship between organizational legitimacy and reputation. We will first briefly clarify our formulations of legitimacy and reputation and then proceed to examine their logical interdependence.

Defining terms

The concept of legitimacy is operationally linked to the minimum accountability standards for a social identity, or social category, represented as a prototypical member profile. Said differently, legitimacy is a property of an institutionalized social category or social form that is conferred, if you will, on its members or adopters.⁵ Choosing a particular social identity necessarily subjects the organization to the standards of that category, on penalty of suffering a “discount” in their legitimacy (Zuckerman, 1999). In brief, legitimacy is linked to the functional requirement of recognizability which, in turn,

⁵ Institutional scholars may note a similarity between our notion of minimum standards and institutional logics (e.g. Friedland and Alford, 1991; Clemens and Cook, 1999). From institutional logics, organizations learn recipes for attaining legitimacy. We simplify this somewhat by arguing that minimum standards simply designate the most basic recipe for legitimacy—what we refer to as a member prototype.

stems from an organization's conformity to the minimum accountability standards defining its particular type of organization.

In contrast, organizational reputation is linked to CED attributes that distinguish a focal organization from other members of a shared social category. In line with the widely held need for positive self-regard, identity theory posits that actors prefer identifying attributes that are considered *distinguished* or *elevated*, not merely different (Abrams and Hogg, 1988). Thus, the distinctive element of the CED conception of identity entails more than unique or different attributes. Organizations want to positively differentiate from peers. Self-defining attributes must distinguish organizational actors in a positive fashion, or for our purposes, organizations seeking distinction must excel in ways that are considered socially desirable within their population.

Some scholars have referred to the elevated accountability standards that facilitate within-category membership assessments as evaluative schemas (Hsu and Hannan, 2005; Hsu and Podolny, 2005; Hsu, 2006). According to Hsu, evaluative schemas are a “concrete basis for making and defending claims regarding the value of a particular” organization (2006: 470). Evaluative schemas are critical to the functioning of markets, which depend on the ability of investors and consumers to group organizations in recognizable clusters and categories and to distinguish between organizations within a category by quality (Greenfeld, 1989; Becker, 1990; White and White, 1992; Zuckerman, 1999). In order for consistent reputation orders to emerge, audiences (or critics and analysts, to be more precise) must agree on what it means to be distinguished. As an example of how evaluative schemas function, Hsu (2006) demonstrates that film critics are more likely to review a movie that fits into a genre for which they already possess

coherent evaluative schema. Without coherent schemas, critics are impaired in their ability to make sense of the film or to rank them in quality. In the same way, organizations that identify with a particular institutional category make themselves accessible to further scrutiny and evaluation by critics, analysts, and opinion-makers who depend on similar evaluative criteria.

The complementary and reciprocal view of legitimacy and reputation

A theme running through our discussion of optimal distinctiveness and accountability standards is the complementary relationship between judgments of similarity and difference and the tight logical coupling between a) similarity and legitimacy, and b) positive distinction and reputation. A brief historical review of identity theory helps bring these logical links into relief.

Coincident with the formulation of social identity theory and its companion, social categorization theory, the locus of individual identity scholarship shifted from the bottom to the top levels of Figure 1 (Brewer, 1991). This increased emphasis on the effects of group and social category memberships in shaping a person's identity occurred at roughly the same time as a complementary shift in institutional theory within organizational studies. This shift in emphasis has been characterized as the "new" institutional theory's focus on isomorphism within fields (DiMaggio and Powell, 1983). The emphasis on similarity within fields replaced the "old" institutional theory's focus on the emergence of distinctive organizational features—expressed as members' growing regard for their organization as something "special." The organization developed

properties that attached to it some personal significance beyond its instrumental utility (Selznick, 1957).

Against this historical backdrop, the tensions depicted in Brewer's principle of optimal distinctiveness are seen in a new light. What was formulated as a tension between two equally compelling existential needs can also be portrayed as a paradigmatic bridge connecting newer from older versions of identity theory and institutional theory. It is thus important to point out that the structural-functional treatment of identity described herein envisions a coherent, composite self-view that, of necessity, encompasses both shared and individuating identity referents. Thus, we view the principle of optimal distinctiveness as more than an intriguing paradox highlighted in the identity literature. Instead we suggest that it reflects the core meaning of the word "identify." This treatment of optimal distinctiveness reflects the logical argument that claims of uniqueness are made sensible by their implicit or explicit reference to broader, prior claims of similarity (i.e., Different relative to what / who?). Viewed in this manner, optimal distinctiveness is less of a tug of war played out between opposing forces and more of a logical necessity, in that similarity and difference are two sides of the same identity coin. Neither functions alone. In turn, audiences' perceptions of approval of an organization's efforts to be both similar and different are reflective of the continuum of accountability standards. Organizations' efforts to distinguish themselves from peers must be consistent with the minimum standards of accountability and, in turn, efforts to move beyond these standards, caused by ongoing differentiation processes, actually inform the minimum standards.

Our revisionist treatment of the relationship between legitimacy and reputation can be summarized as follows. Legitimacy and reputation have a complementary and reciprocal relationship. Legitimacy standards inform organizations' reputation-seeking activities, and reputation-seeking activities, in turn, shape the minimum standards of what it means to belong to a particular category. Changes in the ideal standards upon which reputation is based have consequent effects on the minimum standards of legitimacy. Recognizing that these propositions serve as litmus tests for our argument we will explore each separately.

How legitimacy complements reputation. Is it possible that legitimacy requirements positively contribute to the emergence of ideal expectations? Heretofore, legitimacy requirements have been viewed only as a nominal constraint specifying who belongs to a particular social category and who does not. Moving beyond this simple "Yes/No" view, we are interested in how minimum standards inform what becomes accepted as the ideal qualities associated with a social category. We will examine two instances of how this appears to work.

First, the ideal standards must be consistent with the minimum standards for a particular type of organization. We earlier described how differentiation involves the adoption of additional, lower-level, individuating CED features that are backwards compatible (as depicted in the vertical continuum shown in Figure 1). To be clear, the ideal set of CED organizational attributes for a hospital, a bank, and a university will be quite different. The kind of generative question that might stimulate the emergent articulation of a social identity's ideal profile might be: given that we are an X-type organization, what should the ideal X-type organization look like/do? Minimum

standards, then, inform organizations as they elaborate what ideal performance means. Organizations invoking the ideal profile as a differentiation strategy might form joint ventures with prestigious organizations or adopt category-specific socially desirable goals. Or, they might be the first to offer a “new” service, to provide a nation-wide customer service network, to offer a complete on-line catalogue of their product line, or a no-questions-asked return policy. Either way, organizations must be clear as to why the ideal is consistent with the prototype.

Second, ideal standards might be a logical extension of minimum standards regarding what is considered the *ideal performance levels* for a particular type of organization. Instead of differentiating themselves in terms of “who we are,” or “what we do,” in this instance organizations would focus on “how well we do,” relative to similar others. This form of differentiation requires organizations to demonstrate higher levels of competence than their comparison set according to the elevated standards of accountability specific to a social category (as depicted in the horizontal continuum in Figure 1).

Our view implies that the elaboration of ideal standards is an ongoing process. Organizations, because they face competition from peers, may seek to elevate themselves in novel ways. But for an organization to be able to distinguish itself in an innovative way, the organization must be able to justify its activities according to the minimum standards of the prototypical organization. The reputation-enhancing strategy must be complementary with the minimum standards. For instance, organizations adopting new technologies or new product lines must demonstrate to the relevant stakeholders how the change is consistent with the identity profile of the organization. “Judgments of value,”

in this sense, are inherently “assessments of fit” (Rindova and Petkova, 2007).

Organizations that cannot demonstrate to audiences the fitness of a positive differentiation strategy may, in the end, fail to enhance their reputation and produce an incoherent identity (Zuckerman, 2004). Inasmuch as organizations are capable of justifying novel strategies, they may elevate even further the ideal standards of their category. In this sense, creating novel positive differentiation strategies is akin to “cultural entrepreneurship” (Lounsbury and Glynn, 2001). Rather than inventing new categories, these entrepreneurs are reconfiguring what it means to be an ideal member of a particular category.

How reputation complements legitimacy. Is it possible that a social category’s ideal standards positively inform its minimum requirements? This is the most radical implication of our formulation because previous treatments have not allowed for a “causal effect” (positive or negative) from reputation to legitimacy. We will explore two examples of this proposed positive, causal link.

First, intense pressures to compete among similar organizations can result in what was once an *ideal standard becoming the norm*, both in terms of the ideal identity profile and the ideal level of performance. In this manner, the standards for garnering reputation at one point in time become the standards for being legitimate at a subsequent point in time. Examples include quality standards that were originally formulated as stretch goals but later became normative requirements within some organizational populations. Also, in the banking industry the introduction of ATMs as a positive differentiation strategy rapidly evolved into a requirement for doing business as the technology diffused among rival banks (Hannan and McDowell, 1987). Thus, far from being an exogenous and

antecedent condition, what is considered legitimate can actually encompass what used to be considered positively distinguishing. An important implication of this virtuous cycle is that over time a group's entrance requirements are progressively raised making it harder and harder for new organizations to satisfy the group's minimum requirements.

Second, in instances where the legitimacy requirements for a particular category are somewhat ambiguous, we can expect that *the ideal case will serve as the prototype*. This notion is consistent with a standard classification practice involving emergent categories whereby the "best example" is first used to represent a category and later used as the prototype for an operational definition. This posited relationship is also reflected in the observation that new ways of measuring and framing performance or of depicting new attributes often precipitate the formation of new social categories.

The latter notion is compatible with scholarship emphasizing the prominence dimension of reputation (Rindova, Williamson, Petkova, and Sever, 2005; Rindova et al., 2007). Inasmuch as a reputation signals the prominence of an organization in its category, audiences may become overly-focused on organizations with positive reputations, such that when recalling an organization that belongs to category X, an organization with a good reputation comes to mind. Thus, organizations with positive reputations end up occupying much of the collective attention of the stakeholder audiences that police accountability standards. Rao (1994) showed that organizations in new categories adeptly used the interdependent relationship of reputation and legitimacy when enhancing the legitimacy of a new category – automobile manufacturing. While his analysis concluded that "reputation [was] the outcome of legitimation," (1994: 29), it might be just as easily argued that by creating "certification contests" that demonstrated

the superior competence of some manufacturers over others, the industry's creation of ideal standards brought prominence and visibility to a category that needed a common prototype that the public could embrace. Thus, the emergence of ideal standards among manufacturers created legitimacy for the new category.

Discussion

An organization's salient social identities determine the reference group to which inter-organizational comparisons are made and link the organization to specific accountability standards by which its form, activities, and performance are judged. Organizations that comply with the minimum accountability standards for a given social category achieve legitimacy and are considered as having a particular social identity, but only those organizations that distinguish themselves by pursuing excellence according to ideal standards enhance their reputations. Or, using the language of organizational identity, we can say that organizations are recognizable to the extent that their CED features match those of other organizations sharing their social identity profile, and they become positively distinguished when their CED features are deemed to approach the ideal standard for organizations sharing their social identity profile. It seems appropriate to conclude with a discussion of the implications of our perspective for organizational identity and reputation research.

Implications for organizational identity scholarship.

Conceptual debates prominent within the organizational identity literature have largely relied on appeals to definitions and empirical observations to underscore the merits of a particular conceptualization. The current application of the organizational

identity perspective invokes a different validity standard: explanatory utility—the ability of a concept to explain other concepts (Whetten, 2002). By implication, organizational identity invoked as an explanatum needs to be compatible with the concepts or phenomenon it is expected to illuminate. In this case, the social actor conception of organizational identity was deemed appropriate for the study of organizational legitimacy and reputation because all three constructs are global properties of an organizational actor, rather than properties of individual raters. This usage is also consistent with the use, among social identity scholars, of group stereotypes (prototypical and ideal group attributes) as the basis for formulating between-group, identity-based predictions (Hogg and Terry, 2000).

The notion that an organization’s social identities form the core of its composite identity helps clarify the notion of organizational identity “claims” introduced by Albert and Whetten (1985). In the course of the organizing process, organizations claim membership in established, readily accessible social categories and they “prove these claims” by adopting the requisite social forms and organizing logics. In so doing, organizations “stake their claim” as members of corresponding organizational populations. This treatment helps clarify the notion of legitimate or bona fide identity claims described in Whetten (2006).

Another important implication it is that our perspective underscores the merits of the CED definition as a cross-level characterization of identity. In particular, the enduring characteristic of social identity referents becomes apparent when we compare the functional and structural similarities between organizational social identities (e.g., hospital, corporation, social welfare program, museum) with individual social identities

(e.g., gender, ethnicity). When viewed as higher-order elements in a hierarchical control system we see that the “switching costs” attached to individual or organizational categorical memberships are so high that they constitute, with rare exception, irreversible commitments or immutable identifying features.

Implications for reputation scholarship.

Our view invites consideration of the properties of differentiation strategies that are likely to qualify as reputation-enhancing. The traditional view (e.g., Deephouse, 1999) holds that differentiation strategies must not run counter to a social category’s legitimacy requirements. This specification helps explain why new organizational forms are more likely to be generated by established organizations than by new organizations, whose basis for legitimacy is more fragile (Aldrich, 1999). Novel positive differentiation strategies, in general, are risky. As Zuckerman (1999; 2004) reports, differentiation that challenges existing standards may lead to identity incoherence, which in turn leads to an illegitimacy discount. Or stated in stronger terms, novel differentiation strategies may precipitate a fatal flaw for organizational actors: chronic mistaken identity (Czarniawska, 1998).

Some organizations struggle to build positive perceptions among stakeholders because they belong to two or more social categories that are deemed to be mutually exclusive, such as church and university or family and business. These so-called hybrid identity organizations (Albert and Whetten, 1985; Pratt and Foreman, 2000; Whetten, 2006; Hsu, 2007) find it easier to satisfy conflicting legitimacy (minimal) requirements than conflicting reputation (elevated) standards. Given that the attributes of a particular social category are specified as exclusive of, or in some cases the opposite of, an adjacent

category (e.g., demographic categories, like single and married) it is unlikely that a hybrid organization is likely to held in high esteem relative to non-hybrid members of either identity-defining social category. Thus, while organizational sociology has already demonstrated that membership in seemingly incompatible categories may lead to loss of legitimacy (Zuckerman, 1999), we would expect that hybrid identity organizations would be a relevant “extreme case” for studying reputation.

In passing, it should be noted that this essential attribute of positive differentiation strategies forges a clear link between the literatures on image management and corporate reputation (Whetten and Mackey, 2004; Elsbach, 2006). While past research on reputation building through image management focuses on innate attributes of the actions taken by firms (e.g., Rindova, Petkova, and Kotha, 2007), our conceptualization supports the idea that any action, whether material or symbolic, intended to enhance reputation must also be grounded in the minimum standards of the organization’s social identity, especially when the strategy is novel. Positive differentiation strategies must be both distinguishing and category-appropriate. Just being different clearly isn’t enough. Rather, differentiating attributes and features must be viewed by relevant evaluators as exemplary forms of the prototypical characteristics for a particular type of organization.

Reputation scholarship may also consider the temporal dynamics of a category’s ideal standards. Our view implies that positive differentiation strategies that once enhanced an organization’s reputation may over time become less effective. As more organizations converge on a particular differentiation strategy (e.g., adopting corporate social responsibility practices), the strategy may become viewed by stakeholders as not just ideal but as necessary. Thus, standards may shift along the continuum of minimum

to ideal. Reputation research, while not typically taking the standards that inform reputation as a dependent variable, may consider the historically contingent nature of these standards as an object of inquiry.

An important implication of the category-appropriate criterion is that it challenges reputation scholarship to specify the categorical referent for their reputational measures—keeping in mind that esteem rankings are used to differentiate among members of a particular category. While there is no “right” level in the social identity hierarchy to study reputation, it is prudent to acknowledge the inherent trade offs between using very broad / higher social categories for purposes of comparison (e.g., all businesses, all organizations) and more narrow / lower social categories for a more nuanced understanding of the competitive pressures facing particular organizations (a credit union chartered to operate within Salt Lake City vs. San Francisco). While not meaning to single out one particular survey, Fombrun’s and Van Riel’s (2004) reputation quotient scales, assessing social responsibility, emotional appeal, products and services, workplace environment, financial performance, and vision and leadership, illustrate this tradeoff. Future research should pay careful attention to the local character of reputation orderings.

Figure 1: Hierarchically Ordered Identity Referents and Corresponding Relationship to Legitimacy and Reputation

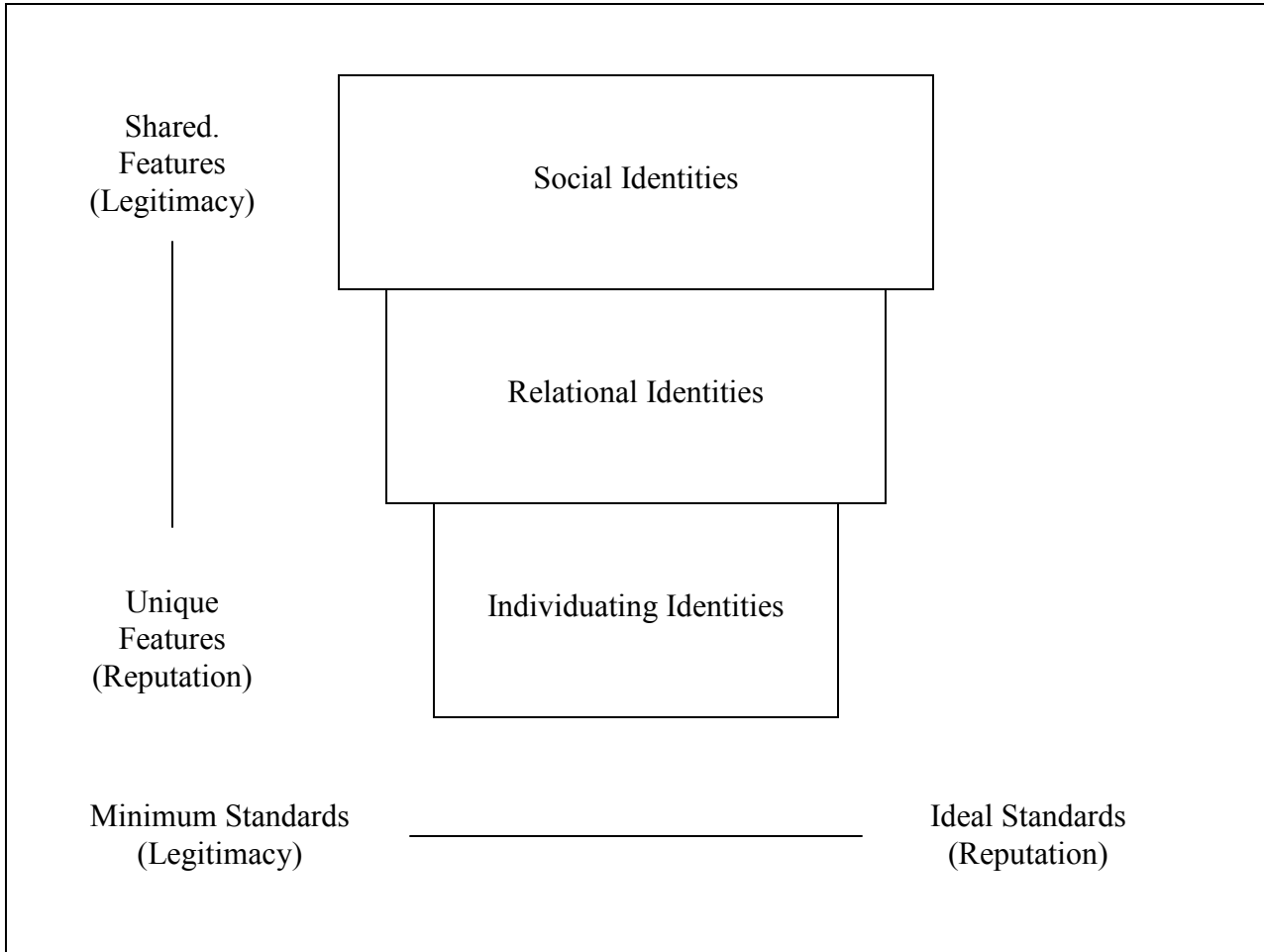
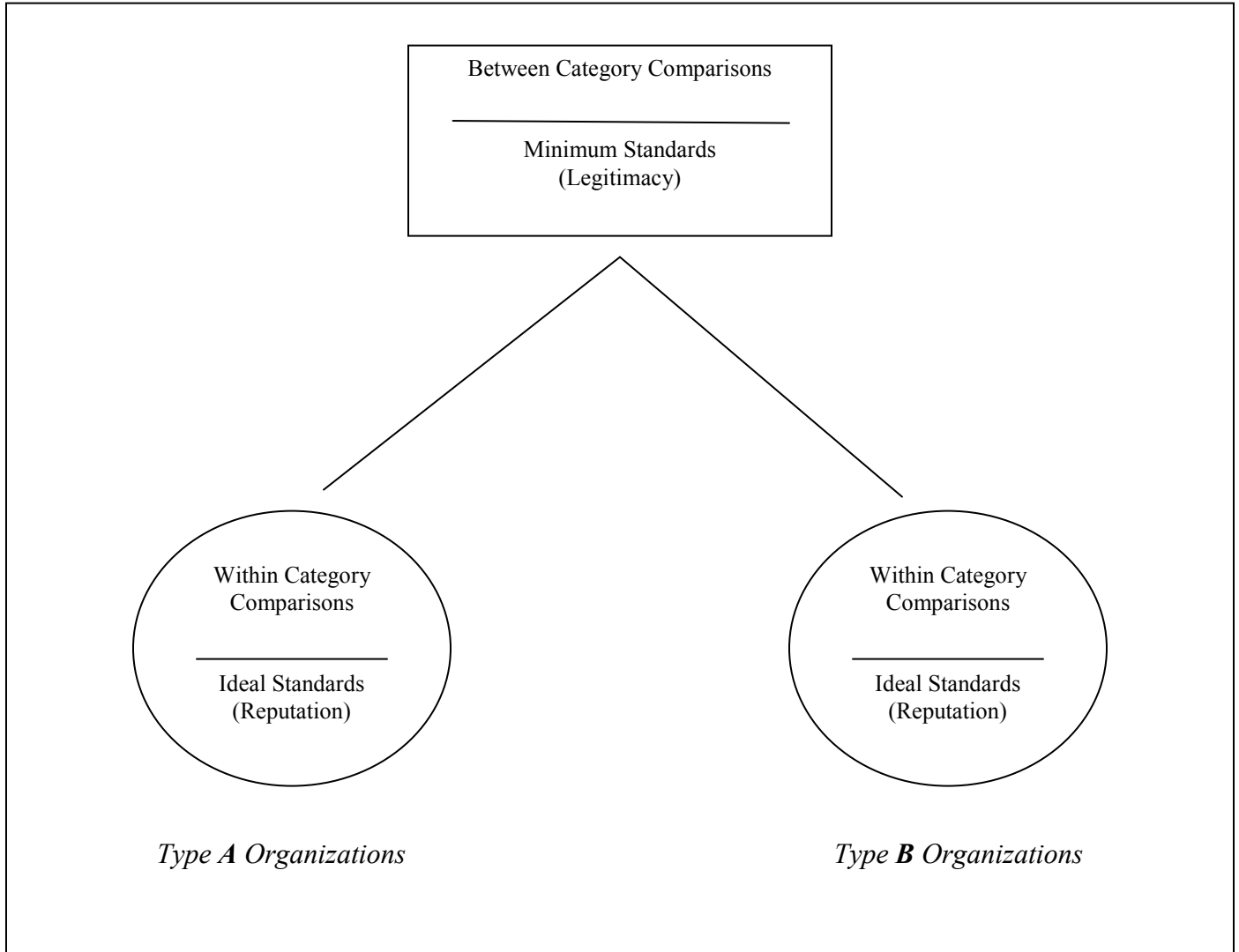


Figure 2: Relation of Accountability Standards to Different Forms of Comparison



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