Audience Heterogeneity, Costly Signaling, and Threat Prioritization: Bureaucratic Reputation-Building in the EU

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Abstract

Organizational reputation theory suggests reputational threats can induce public organizations to change their behavior. However, it offers few insights into how organizations in contexts of high audience heterogeneity prioritize between conflicting threats, or how they ensure reputation-seeking signals reach their intended audiences. This article seeks to close these knowledge gaps. It expects organizational threat prioritization to be shaped by the centrality of the threat to the organization’s distinct reputation, and by differences in audiences’ capacity to put pressure on the organization through mobilization. Moreover, it argues that public organizations strategically vary the observability and costliness of outgoing reputation-seeking signals in response to shifts in the balance of reputational threats they face. It finds support for these expectations in the context of the European Commission, a supranational organization operating in a context of high audience heterogeneity and severe reputational threats. The empirical analysis is based on the Bayesian longitudinal modeling and simulation of Commission decision-making and applies a novel dataset on fiscal rule enforcement in the European Union (EU). The findings have important implications for organizational reputation theory and call for a renewed focus on the mechanisms underlying audience-induced organizational behavior.

Introduction

Reputation-based explanations of bureaucratic behavior have steadily been gaining ground in the realm of Public Administration scholarship (e.g., Alon-barkat and Gilad 2016; Busuioc and Lodge 2016; Gilad 2015; Gilad, Maor, and Bloom 2013; Maor, Gilad, and Bloom 2013; Moynihan 2012; Rimkutė 2019). Reputation has been a common subject of study in the social sciences more generally (starting with Goffman 1959), but the reputation-based approach to public organizations has only emerged more recently with Daniel Carpenter’s (2010, 2002) seminal work on reputation, power and the US Food and Drug Administration. For Carpenter and scholars who have co-opted his lens, reputation is “a set of beliefs about a public organization’s capacities, roles, and obligations that are embedded in a network of multiple audiences” (Carpenter 2010, 45 emphasis added).

Carpenter (2010) argued that the safeguarding of a positive reputation for a unique function or trait in
front of key audiences is a vital prerequisite of the success and survival of any public organization. These audiences are often heterogeneous: different audiences with different interests may place simultaneous but conflicting demands on organizations, making the process of reputation management a difficult endeavor. This is especially true for organizations that have a weak or developing reputation for a specific function or trait (Maor, Gilad, and Bloom 2013). Yet despite the recurrent assumption in the literature that reputation management involves tradeoffs between conflicting threats, we lack a comprehensive account of reputation-seeking behavior by public organizations in the presence of multiple, heterogeneous audiences posing simultaneous, conflicting, and dynamic reputational threats.

The most prominent question for understanding such behavior remains: how do public organizations prioritize and signal different audiences when cultivating reputation? Existing studies on organizational responses to reputational threats have yielded valuable insights into responses to homogenous reputational threats, such as to public protests (Alon-barkat and Gilad 2016; Gilad and Chagai 2019) or negative media coverage (Maor 2011; Maor and Sulitzeanu-Kenan 2016). Others have captured the role of multiple audiences by proxy, for example, through assumed reputational implications of statutory mandates (Busuioc and Rinkutė 2019a; Rinkutė 2019) or by capturing the centralization of audiences (Rinkutė 2018). Case-studies have noted the presence of conflicting demands on public organizations, but do not examine the associated dynamics either implicitly (Etienne 2015; Gilad 2009) or explicitly (Gilad 2015). Maor et al. (2013) show how communicative responses vary when different threats target different elements of a regulator’s multidimensional reputation. Carpenter (2002) and Gilad et al. (2013) find that allegations of over- and under-regulation produce different organizational responses, depending on issue salience, the content of the threat, and the centrality of the threat to the organization’s reputation. More recently, Boon et al. (2019) examined how organizational autonomy shapes audience prioritization by public organizations as self-reported by organizational staff.

While these studies offer important insights into audience prioritization by organizations, they do not explain how audience prioritization unfolds when organizations face multiple, conflicting, and dynamic threats. How do organizations assess a “balance of conflicting threats”? Does audience prioritization change if this balance shifts over time? Moreover, if contexts of high audience heterogeneity require differentiated reputation management strategies, how do organizations ensure their signals reach their intended audience(s)? These questions are especially relevant as today’s public organizations operate in increasingly dynamic and multi-polar environments. Whereas existing scholarship has made great strides in explaining static responses to various types of threats, reputational scholars should more explicitly endeavor to identify the mechanisms involved in reputation-seeking behavior. Foremost, this implies identifying the dynamic conditions that shape organizational attention over time, including their sequencing and interactivity, with specific attention to the thresholds involved in shaping organizational responsiveness.

The present study seeks to close this knowledge gap by examining how public organizations build reputation in environments featuring multiple, heterogeneous audiences posing a dynamic balance of conflicting threats. It does so by examining the reputation-seeking behavior of the European Commission in its role as the European Union’s (EU’s) fiscal supervisor of national governments. The European Commission offers a most-likely and theoretically informative case of reputation management in a divisive context characterized by strong audience polarization. As the EU’s central bureaucracy, it has seen a steady expansion of its competences in relation to national fiscal policies during a period in which the EU itself has become increasingly contested amongst a growing set of audiences (Van der Veur and Haverland 2019; Zürn 2019). This contestation over supranational meddling and issue-specific conflict over the appropriate degree of enforcement divides audiences across member states and ensured that the Commission never fully established a univocally positive reputation regarding fiscal surveillance.

This study’s specific empirical focus lies with the way conflicting and dynamic reputational threats shape the decision-making of the European Commission in its role as enforcer of the EU’s Stability and Growth Pact (SGP). In this context, it investigates the long-term interaction between the European Commission and two sets of audiences that advance consistent yet diametrically opposed reputational threats with potentially grave consequences for the EU if mismanaged. It shows how shifts in the balance of these threats are followed by shifts in the Commission’s audience prioritization and enforcement behavior and highlights the role of audience mobilization therein. It also shows how signal strength and direction are strategically adapted by the Commission as part of its reputation-seeking strategy.

In doing so, this study makes several contributions to organizational reputation scholarship. Foremost, it moves beyond Carpenter’s (2010, 832) advice to “look at the audience, and look at the threats” by highlighting the importance of understanding the dynamic interplay between heterogenous threats, as well as the specific
conditions, mechanisms, and thresholds underpinning organizational audience prioritization and reputation signaling. Second, by applying a reputational lens to the European Commission, it broadens the scope of the reputation literature to include high-profile supranational organizations beyond strictly regulatory ones (cf Busuioc and Rimkutė 2019b). The reputations of these organizations are often less well-established than their national counterparts, but their high visibility means reputations must be safeguarded in eminently political contexts of high audience heterogeneity and exceptionally strong challenges to organizational authority. Third, it returns a focus on tangible organizational outputs to a debate that has predominately focused on organizational communication in recent years.

**Reputation and Audience Heterogeneity**

All public organizations face some degree of institutional risk as they perform the tasks delegated upon them (Rothstein 2006), that is, risks posed specifically to the organization’s institutional position. For example, poor organizational performance or strong political opposition can lead to budget cuts or a weakening of the mandate of the organization. The key to bureaucratic reputation theory is that it acknowledges that it is often perceived performance or efficacy that safeguards against institutional risk. As such, appearing to be fulfilling core organizational tasks in a competent way in the eyes of key audiences yields good reputation. Good reputations, in turn, are valuable political assets and allow organizations to gain autonomy, enlist political and public support, and ensure institutional survival (Carpenter 2010; Carpenter and Krause 2012; Gilad 2015). They take time to cultivate and require the constant employment of various reputation-balancing and protection tactics (Maor 2011; Maor, Gilad and Bloom 2013; Rimkutė, 2018).

What is considered a “good” reputation depends on the functions and traits of the organization (Carpenter 2010; Carpenter and Krause 2012). Organizations can highlight several reputational dimensions (Carpenter 2010; Lee and Van Ryzin 2019): performance reputation (capacity to effectively achieve objectives), moral reputation (adherence to law and social norms), procedural reputation (justness and quality of decision-making), and technical reputation (specialization, expertise, and an adherence to scientific standards). Ultimately, organizations create a unique mix of these components to defend a “reputational uniqueness” (Maor and Sulitzeanu-Kenan 2016; Rimkutė 2018): by signaling that they alone can effectively produce the desired outputs and outcomes, they negate the risk of mandate weakening or termination (cf Askim et al. 2019).

These reputations are constructed in the interplay between the organization and the multiple audiences in its institutional environment, and audiences have the power to issue reputational threats to the executive (Carpenter 2010; Maor and Sulitzeanu-Kenan 2013). A reputation-sensitive organization takes important audiences into account as it engages with its external environment. This is especially the case when the reputation of the organization for the specific task or trait at stake is weak or emergent (Maor, Gilad, and Bloom 2013), and when threats challenge more constitutive elements of an organization’s reputation (Gilad, Maor, and Bloom 2013): while organizations with strong reputations can afford to keep silent and can thus be more selective in responding to threats, this need to respond is greater for organizations with weaker reputations. These organizations have fewer “reputational reserves” to draw from, and must often rely more explicitly on reactive reputation management. For reputational scholars, organizational legitimacy is ultimately “a product of successful reputation management by selectively responding to various reputational threats” (Rimkutė 2018, 72).

Audience heterogeneity matters because the more heterogeneous the audiences, the more intricate the process of reputation-building for public organizations. Two important factors shaping the heterogeneity of audiences are differences in audiences’ preferences and power: what do (different) audiences care about, and what capacities do they have to influence the organization? When different audiences have divergent preferences regarding the behavior of the organization, bureaucratic choices imply tradeoffs between maintaining reputation with one audience and taking reputational losses with others (Carpenter and Krause 2012; Etienne 2015; Maor 2016). In such cases, organizations can attempt to tailor reputation management tactics to specific audiences, but this involves deciding which audience(s) to prioritize. Moreover, “the reputation-based power of any organization rests in the judgment of its audiences; those audiences have a form of power, too […]” (Carpenter 2010, 18). More powerful audiences can issue stronger reputational threats to the organization, thereby inducing stronger organizational responses (Maor 2016; Maor, Gilad, and Bloom 2013). For example, ordinary citizens cannot issue a reputational threat to an organization unless they have the power to apply institutional pressure by mobilizing in protests or voting for parties with agendas that may threaten the organization’s functioning. Business actors, on the other hand, draw on different sources of power, such as technical expertise and financial means.
Costly Signaling

Reputation theory assumes that organizational responses to threats are carefully calibrated to cultivate a positive reputation for a specific organizational function or trait. In other words, they mean to signal key virtues or traits to those audiences prioritized by the organization. Originally employed to explain how job applicants use the attainment of a higher education degree to signal their quality to potential employers (Spence 1973), signaling theory has been key to understanding how (political) actors convey information to audiences about qualities that are difficult or impossible to observe (e.g., Bailey, Kamoie, and Maltzman 2005; Fearon 1997; Hennessy 2017). Effective signals have two things in common: they are observable, and costly to the signaling actor (Connelly et al. 2011). Signal observability is important because the intended audience must be able to differentiate signal from noise. Signal cost is a necessary condition for signals to be credible in the eyes of receivers: only a costly signal can convince an audience that the signal is not “cheap talk.” For example, democratic governments are considered better at signaling their foreign policy intentions than autocracies, because they risk electoral repercussions when they back down after publicly committing to a course of action (Fearon 1997; cf Weeks 2008). Such “audience costs” can be accrued intentionally by political actors who seek to increase the credibility of their signals, that is, by openly “tying their hands” in public.

Based on these insights provided by signaling theory, we can assume that organizations seeking to signal their reputational qualities to their audiences also vary signal observability and cost to make signals stand out for prioritized audiences. This should hold especially when audiences are more heterogenous, as signals must be more explicitly tailored to specific sets of audiences. Thus, we can expect public organizations to seek to credibly bolster their reputation by sending observable and costly signals to the audiences associated with the highest-priority threats.

**Proposition 1:** Public organizations will send visible and costly signals intended to bolster reputation for the function or trait under threat to the audiences associated with the threats they prioritize.

Threat Prioritization

This leaves open the question of how public organizations decide which audiences to signal. Organizations that operate in contexts of high audience heterogeneity must assess the balance of threats emanating from their environments and prioritize audiences accordingly. Based on the preceding discussion, we can assume that it is these same characteristics shaping audience heterogeneity that determine how organizations prioritize audiences: cues regarding audience’s preferences and power are used to estimate the relative strengths of reputational threats. Preferences matter for prioritization in two ways. First, the more an organization’s actions deviate from an audience’s preferences, the more the organization is likely to face reputational losses for this audience. Second, the more this preference-behavior divergence relates to a more central element of the organization’s mandate, the more painful the associated reputational losses will be (Carpenter 2002; Gilad, Maor, and Bloom 2013). If threats are irreconcilable and target different elements of a reputation, organizations will prioritize threats that speak to more vital elements of that reputation.

However, even if preference-behavior divergences are more central to a distinct reputation, they can still pose a weak threat if the associated audiences have few means to “retaliate” when their preferences are overlooked. Conversely, relatively trivial threats tied to powerful audiences may be assessed as potent ones due to these audiences’ capacity to put pressure on the organization.

Thus, in contexts of high audience heterogeneity, we should also observe stronger organizational sensitivity to threats issued by audiences that are more capable of mobilizing against the public organization (Alon-barkat and Gilad 2016; Gilad and Chagai 2019). Audiences that manage to overcome collective action problems through mobilization, for example, by amassing financial or political resources, can apply more pressure to an organization. Reputational losses for these audiences will be more alarming for the organization and should solicit stronger organizational responses in return. It, therefore, seems likely that organizational responses to conflicting threats reflect both their centrality to the organization’s distinct reputation, as well as the balance of strength of the audiences tied to these threats.

**Proposition 2.a-b:** When facing conflicting reputational threats, public organizations will prioritize those threats that (a) speak more directly to core functions or traits of the organization and that (b) yield reputational losses for audiences with greater mobilized means to harm the institutional position of the organization.

The European Commission and its Conflicting Eurosceptic Threats

As the supranational bureaucracy responsible for the “day-to-day” government of the EU, the European Commission has the sole right to initiate EU legislation,
and it is responsible for the bulk of the implementation and enforcement of EU law and policy. Such supranational public organizations generally face more challenges to their legitimacy and authority than their national counterparts (Koppell 2008). This holds for the Commission in general, but especially in relation to its competences in EU fiscal surveillance, where it has a complex relationship with EU member states.

First, and regardless of the policy area, the Commission’s mandate is decided upon by the collective of EU’s member states in the (European) Council. These governments delegated far-reaching competences for fiscal surveillance the Commission because of the strong economic and monetary dependency between member states (Heipertz and Verdun 2010). EU law enables the Commission to invasively scrutinize, demand changes to, and ultimately sanction EU member state governments over national fiscal policies. However, it is also the economics and finance ministers of EU member state governments in the Economic and Financial Affairs (ECOFIN) Council that must adopt Commission decisions on fiscal surveillance before they come into effect. In other words, the Commission is asked to take invasive surveillance steps against individual governments (including the imposition of financial sanctions), whereas collectively, these governments can block those decisions or terminate its mandate entirely.

Second, supranational organizations operate in contexts featuring far more, and more heterogeneous, audiences than their national counterparts (Rimkuté 2019). The enforcement of EU fiscal rules vis-à-vis a member state is closely watched not only by audiences in that member state, but also by multiple audiences throughout and beyond the EU. These include member state governments, but also national parliaments, general publics, market actors, and other EU institutions (Van der Veer and Haverland 2018). These multiple audiences have different preferences regarding how EU fiscal rules should be enforced, and many, most notably general publics and parliaments, hold significant sway over the future of the EU.

Third, whereas the Commission enjoys a strong reputation in areas such as competition regulation, its reputation as enforcer of fiscal rules has been strongly contested from the outset (Heipertz and Verdun 2010). The Commission’s performance reputation has frequently been challenged by audiences in member states that are net-contributors (i.e., creditor states), who generally see the Commission as too soft on fiscally irresponsible member states (e.g., Heinkelmann-Wild, Rittberger, and Zangl 2018). Other audiences, including citizens and politicians in debtor states, have challenged the Commission’s procedural reputation and argue fiscal surveillance centralizes control over the spending of national governments in the hands of unelected Commission experts, who are not sufficiently democratically accountable (Sanchez-Cuenca 2017; Scharpf 2015). As a result, the Commission has struggled with the enforcement of EU fiscal rules: it has been reluctant to impose sanctions, and its overall capacity to uphold these rules has frequently been questioned (e.g., European Fiscal Board 2018).

These extant reputational threats have been compounded by the fact that the Commission has been tasked with the enforcement of fiscal surveillance while the legitimacy of the EU has become strained and contested to a degree unprecedented in its history (Hooghe and Marks 2009; Zürn 2019). Anti-European sentiments have swept across the continent and Eurosceptic parties have proliferated across the political landscape (Hobolt and de Vries 2016; Meijers 2017). These forces have profoundly affected the EU, from Brexit to the Commission’s ability to source employees from Eurosceptic member states (Gravier and Roth 2019). Grievances against the EU vary considerably over time and space, however, and are strongly related to grievances over EU (macroeconomic) policy (Lauterbach and Vries 2020). During the economic crisis, much of the Euroscepticism in creditor countries stemmed from dissatisfaction with the financial aid programs to struggling governments of debtor states, which were deemed unfair to creditor states or ineffective at solving the crisis. Yet in debtor states, Euroscepticism stemmed from the EU’s harsh austerity programs that came with the aid. Eurosceptic protests in The Hague and Berlin riled against fiscal transfers to Greece, whereas in Athens, EU flags were set on fire to protest the reform conditions that came with the aid. Across Europe, Euroscepticism is also more generally driven by a growing hostility towards supranational governance and its infringement on national statehood (Zürn 2019).

As a result, the reputational threats for the Commission, as the EU’s most high-profile institution, have been serious. There has been a recurring call to transfer competences like fiscal surveillance from the Commission to other EU institutions, such as the European Stability Mechanism. In addition, movements pushing for a full exit from the EU have emerged in most member states and have been successful in the United Kingdom. Various studies have found that such Eurosceptic episodes significantly impact the day-to-day activities of EU institutions, including the Commission (Meijers et al. 2019; Rauh 2019; Van der Veer and Haverland 2018).

As such, EU fiscal policy tasks a Commission that is perceived as a weak fiscal regulator by Eurosceptic audiences in creditor states with enforcing invasive surveillance measures against member state governments,
whereas Eurosceptic audiences in the target state (the member state under surveillance) oppose supranational meddling by an unelected Commission as it constrains national sovereignty and democratic choice. This can lead to two antagonistic but potentially deeply consequential reputational threats for the Commission. The conflict over the Italian budget in 2018 is a prominent example, as it left the Commission walking a tightrope between allegations of weak enforcement issued by audiences in creditor states and growing calls for “Italexit” (or “Italeave”) coming from Eurosceptic audiences in Italy. How would we expect the European Commission to safeguard its reputation in the face of such simultaneous but diverse reputational threats, given the inevitability of reputational losses in such contexts characterized by high levels of audience heterogeneity (Carpenter and Krause 2012)?

Commission Resolve and Eurosceptic Mobilization

In line with the general expectations regarding costly signaling and threat prioritization outlined above, visibly pandering to the reputational threat of Euroscepticism in the target state may severely damage the Commission’s performance reputation for audiences in creditor member states. Two reasons make the Commission’s prioritization of creditor audiences a likely scenario. First, creditor audiences favoring strict enforcement are a larger, jointly more powerful set of audiences than the audiences favoring lenient enforcement in the target state, making the aggregate of reputational losses and potential consequences greater when these audiences are neglected. Second, claims of under-enforcement should be more threatening to the organization’s reputation because they are directly targeted at its core function of protecting a specific public value and suggest the possibility of (political) capture (Gilad, Maor, and Bloom 2013).

As the organizational response must be observable and costly in order to constitute a credible signal of resolve, it is likely that we see a tendency towards over-enforcement of fiscal rules in relation to member states which are more Eurosceptic. Van der Veer and Haverland (2018) have shown how the threat of being regarded as a weak regulator that is intimidated by Euroscepticism causes the Commission to scrutinize member states to a greater extent, and argue such “regulatory entrenchment” serves to signal resolve to other audiences. This tendency of organizations to signal resolve in the face of external pressure has been corroborated in different contexts (Gilad 2009; Rimkutė 2018). This leads to the following specification of Proposition 1:

H1: As a visible and costly signal of resolve, the Commission will be more likely to apply fiscal surveillance measures for member states that are more Eurosceptic.

Moreover, if the driving logic behind the signaling of resolve in the face of Euroscepticism in the target country is to cultivate performance reputation for credible and competent fiscal supervision in the eyes of audiences that support rigid fiscal enforcement beyond the target country, the strength of this signal should depend on two factors. First, this tendency should be stronger when the fiscal problems of the target government are greater and should be practically nonexistent when the target state is not (at risk of) breaching EU fiscal rules. Euroscepticism alone should not lead to the application of surveillance measures. Second, this tendency to signal resolve should be driven by the strength of the reputational threat issued by pro-enforcement audiences in creditor states. As stated above, the views that the EU unjustly funnels tax-payer money from creditor to debtor states and that the European Commission is too lenient with fiscally irresponsible governments has been a strong driver of Euroscepticism amongst audiences in creditor countries. If enforcement decisions are intended to signal the Commission’s willingness to uphold EU fiscal rules to pro-enforcement audiences despite the contestation of Commission authority in the target state, these signals should be stronger when the need for reputation signaling to these audiences is greater. Thus, we should observe stronger tendencies to signal resolve in the face of Euroscepticism in the target state when levels of Euroscepticism in creditor countries are comparatively high. This leads to the following specification of Proposition 2a:

H2a: The tendency to signal resolve in the face of Euroscepticism in the member state under surveillance exists only when the member state is (at risk of) breaching EU fiscal rules, and is stronger when audiences in creditor member states are more Eurosceptic.

However, signaling resolve intended to bolster performance reputation among creditor audiences through overly strict enforcement has the obvious disadvantage of yielding reputational losses among Eurosceptic audiences in the target state. Such signals risk further antagonization of these audiences, who likely interpret them as unresponsive and technocratic in the face of calls for more leniency or sovereignty (cf Caramani 2017). Seen this way, the strategy may strengthen the very reputational threat it responds to; it becomes self-defeating. We can expect the Commission to favor signaling resolve to creditor audiences unless changes in the balance of reputational threats amplify the threat of over-enforcement relative to that of under-enforcement.
Euro sceptic audiences in the target state can mobilize by mounting Euro sceptic protests or by voting for political parties that campaign on Euro sceptic policy agendas (Meijers 2017; Rauh 2019). Euro sceptic audience mobilization amplifies the reputational threat to the Commission because mobilized audiences can indirectly affect the Commission’s institutional position by impacting national positions towards the EU and by pushing mainstream parties to take a more Euro sceptic stance. Euro sceptic movements also politicize Europe to a greater extent, raising the salience of Commission decisions amongst a broader set of audiences. Thus, it is plausible that the mobilization of Euro sceptic audiences in the target state may shift the way the Commission prioritizes between audiences. This leads to the following specification of Proposition 2c:

H2c: The tendency to signal resolve in the face of Euro scepticism in the member state under surveillance is weaker when Euro sceptic audiences in that member state mobilize politically.

Data and Method

I test these expectations on an original dataset on the enforcement of Excessive Deficit Procedures by the Commission for all 28 member states for the period 2005–2018. These EDPs are the central corrective tool in the SGP, which commits member states to maintain nominal government deficits below 3% of GDP and gross government debts below 60% or approaching the latter at a satisfactory pace.1 However, numerous reforms and revisions have added a myriad of rules, interpretative documents and flexibility clauses, which aimed to make the Pact more sensitive to the economic context, for example by taking into account the economic cycle, structural reforms or exceptional circumstances (European Commission 2019; Heipertz and Verdun 2010).

If a member state fails to comply with the Pact’s thresholds, the Commission may decide to trigger its corrective arm by opening an EDP. Throughout the procedure, the Commission periodically assesses a member state’s progress towards compliance and may decide to abrogate or “step-up” (i.e., intensify) the EDP accordingly. The final stages of this procedure are backed by substantial sanctions that vary from a temporary suspension of EU funds to a financial sanction of 0.2% of GDP. The outcome variable of the present study, enforcement of fiscal surveillance, is defined as the willingness of the European Commission to open an EDP against a member state and is captured by a dichotomous variable indicating whether a member state is subject to an EDP or not. As the Commission generally takes decisions on EDPs in either spring or autumn, the data is structured in 6-month periods, from the second half of 2005 (July–December) to the second half of 2018.

The longitudinal and clustered nature of the data, combined with the fact that member states may transition in and out of EDPs multiple times during the observed period, necessitate the use of a mixed-effects Observed Markov model (OMM).2 Common to the biomedical sciences, Markov models allow the explicit modeling of longitudinal state-switching processes (e.g., Shirley et al. 2010; Siebert et al. 2012). More recently, they have been introduced in the behavioral sciences as a convenient way to model dynamic cross-sectional data (Park 2012) and the model’s flexibility allows for the inclusion of random effects (de Haan-Rietdijk et al. 2017). Its Bayesian specification and estimation via Markov Chain Monte Carlo (MCMC) simulation allow the use of such complex models with a relatively small number of observations (de Haan-Rietdijk et al. 2017; McElreath 2015).

Bayesian inference is not dependent on frequentist assumptions about repeated sampling from a general population or on p-values that are often misleading or wrongly interpreted as Bayesian parameter estimates. Instead, Bayesian estimation takes the data as given but assigns a probability distribution to each of the model’s parameters. This is done by specifying a prior distribution for each parameter, which reflects the researcher’s prior beliefs about the location and uncertainty of the parameter. Priors can be set to reflect findings from prior studies, but more often, they are explicitly set to in accordance with a null-hypothesis (no effect). Such “regularizing” priors “pull” parameter estimates towards 0 and, as such, yield more conservative tests.3 The estimation process is characterized by iterative comparisons between the empirical data and data that is simulated using increasingly likely combinations of parameter estimates. These parameters are themselves iteratively updated until new iterations no longer improve the comparability of simulated data to the empirical data (a process broadly referred to as “machine learning,” see also Anastasopoulos and Whitford 2019). The final likelihood distributions, so-called posterior distributions, offer probabilistic depictions of the parameter estimates (and associated levels of uncertainty) that are most likely to have produced the “real-world” data.

1 This satisfactory pace is defined as a country-specific debt reduction benchmark (European Commission 2019).

2 Alternative longitudinal models, such as survival models, do not allow member states to transition back to a previous state. Markov models allow member states to transition between states using a unified model.

3 In fact, frequentist statistics also use priors: absent any clearly defined ideas about the prior likelihood of a result, each possible value is expected to be equally likely (this is what Bayesians call a “uniform prior”).
I use an adaptation of the mixed OMM developed by de Haan-Riedijk et al. (2017), which includes a random intercept for countries. This OMM takes the observed state transitions over time and estimates the transition probabilities, $\pi_{ijt}$, for member state $i$ in year $t$ from state $i$ to state $j$. Table 1 presents the transition probabilities estimated in an OMM for EDP enforcement. The two possible between-state transitions ($\pi_{12}$ and $\pi_{21}$) are each modeled by a logit within the OMM. A more detailed description of the data and final model, including its diffuse, regularizing priors, its mathematical and software specifications, details about its estimation and additional robustness checks, including alternative (non-Bayesian) models, can be found in the Supplementary Appendix.

The outcome variable, the state of a member state with regard to the EDP, is the outgoing signal sent by the Commission to its audiences. The key incoming signals of reputational threats are captured by three measures. The level of public Euroscepticism in the member state under surveillance is captured as the percentage of respondents answering “fairly negative” or “negative” to the European Commission’s Eurobarometer item: “In general, does the EU conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image?” The Eurobarometer also has a question on trust in the Commission. Whereas this measure is Commission-specific, I opt for the more general image item for two reasons. First, trust is more specific than reputation: it speaks to the dimensions of moral and procedural reputation more strongly than to the other dimensions, and overall feelings and attitudes also matter for an organization’s reputation (Lee and Van Ryzin 2019). Second, given the EU’s institutional complexity, citizens take cues on the EU and often evaluate EU institutions through a single attitude dimension (Arnold 2012; Høbøl 2007). I use the same approach to measure the share of Euroscepticism in a set of key creditor countries, in which Euroscepticism has been a partial response to dissatisfaction with the EU’s lenience towards debtor states. These countries are Austria, Finland, Germany, and the Netherlands.

| State$_{ni}$ | State$_{ni+t}$ | No EDP (1) | EDP (2) |
|--------------|----------------|------------|---------|
| No EDP (1)   | $\pi_{11}$      | $\pi_{12}$ |         |
| EDP (2)      | $\pi_{21}$      | $\pi_{22}$ |         |

Table 1. Transition Probabilities for a Two-State Observed Markov Model

I capture the level of mobilization of Euroscepticism in the member state under surveillance through the strength of Eurosceptic challenger parties in a member state’s parliament by identifying these parties using a seven-point anti-pro party position scale on European integration, taken from the 2006–2014 waves of the Chapel Hill Expert Survey (Polk et al. 2017). This is a continuous measure indicating the share of seats occupied by parties in a national parliament that score below four on the scale; these can be classified as “soft” or “hard” Eurosceptics (Ray 2007).

Control Variables

I include several control variables to minimize the possibility that omitted variables bias the model’s estimates and describe their data and operationalization in more detail in the Supplementary Appendix. First and foremost are a member state’s Gross Government Debt and Cyclically-adjusted Government Deficit as a percentage of GDP, for which the data is taken from Eurostat. Given the underlying logic of EDPs, the deficit should be the strongest predictor of state transitions in the EDP; member states with high levels of deficits should be more (less) likely to transition into (out of) the procedure. To date, the debt criterion has not been enforced by the European Commission, and the first debt-based EDP is yet to be opened. As such, there should not be a strong relationship between this measure and the EDP-state of a country.

Second, the political power of a member state in the Council has always been an important factor in EU decision-making, and politically stronger member states have a stronger bargaining position vis-à-vis the Commission (e.g., Baerg and Hallerberg 2016). I capture political power as the voting power of a member state in the Council. Third, I also include controls for a member state’s government position on the EU and the government’s left-right position on economic matters, with seat-weighted scores for coalition governments. The first measure prevents contamination of the abovementioned signals of reputational threats by ensuring the Commission is not just responding to more ...
Eurosceptic member state governments. The second controls for the fact that government positions on economic matters may be associated to positions on the EU (Otjes and van der Veer 2016). The final included measure captures the electoral cycle of a member state, that is, the number of years until the next general election in that member state. Table 2 contains descriptive statistics for the outcome and predictor variables prior to centering and standardization.

Centering and Standardization
All predictors, except the measure for the electoral cycle, are lagged \(t_{i,j}\) to ensure predictors precede the outcome. The measures for debt and deficit are lagged in such a way that they follow the logic of Commission decision-making: the opening of EDPs in autumn is often based on forecasts for the current year \(t_{i,j,0}\), whereas those opened in spring are usually opened based on outturn data of the previous year \(t_{i,j}\). The measure for the electoral cycle is not lagged as future elections dates are (roughly) known in advance.

Moreover, the method of centering of predictors is an important consideration for multilevel models that affects both the parameter estimates and their substantive interpretation (Enders 2013; Enders and Tofighi 2007; Gelman and Hill 2007). I center all predictors on their grand mean: this way predictors retain their relative interpretation (Enders 2013; Enders and Tofighi 2007). To further aid interpretability, continuous predictor variables are standardized by two standard deviations (Gelman and Hill 2007).

Results
Table 3 presents the results of the OMM. Bayesian posterior estimates are intuitively understood as density plots that depict the likelihood of the location of the parameter estimate. Posterior medians, therefore, give the most likely locations of parameter estimates. Posterior standard deviations (PSD) and highest posterior density intervals (HPD) describe their uncertainty, and are intuitively comparable to standard errors and confidence intervals to some degree. The HPD is the narrowest interval containing the specified posterior probability mass, that is, the narrowest interval covering the parameter estimate with a given (usually 95%) probability (McElreath 2015). Medians are on the logit scale and are difficult to interpret. The associated odds ratios (OR) obtained through exponentiating these medians give the multiplicative change in the probability of transitioning \(\pi\) for a one-unit change on a predictor. The intercept for the first transition logit \(\pi_{1,2}\) implies that a country with mean scores on all predictor variables has a 0.011 probability of transitioning into an EDP, and a \((1–0.011)=0.989\) probability of remaining outside one.

The first important finding is that, as expected, the estimate for government deficits is by far the strongest predictor of EDP enforcement. The OR for the effect of a one-unit (2 SD, see Table 2) increase in a government’s deficit indicates the probability of entering an EDP increases by \(\exp(\pi_{1,2}=0.582\times1)=5958.2\%\), that is, from 0.011 to 0.666. Moreover, the same change is associated with a 98.4% decrease in the probability of leaving an EDP. The strength of these effects is unsurprising, given that a one-unit change represents a change from a cyclically-adjusted government deficit of −0.972 (a budgetary surplus) to 5.598 as a percentage of GDP. The left panel of Figure 1 visualizes this relationship relative to the SGP’s 3% deficit threshold.

The composite effect for public Euroscepticism suggests a one-unit increase, indicating a 9.6% increase in the number of citizens holding negative views of the EU, is associated with a 1268.1% increase in the odds of entering an EDP, when all other predictors are at their mean. Again, this increase is relative to the base probability \(\pi_{1,2}\) \((0.011\times13.681=0.151)\). As
the posterior fully excludes zero, it provides credible evidence suggesting that the Commission is more likely to open an EDP for a member state when levels of public Euroscepticism in that member state are greater. This finding corroborates H1 and suggests the Commission signals resolve in the face of public Euroscepticism in the target state as it seeks to build its performance reputation for audiences supportive of strict surveillance.

The OMM’s interaction effects explore the conditionality of the effect of public Euroscepticism in the member state under surveillance and are plotted in Figure 2. Importantly, the marginal effects of interactions in nonlinear models are often nonlinear

| Table 3. OMM Fixed Effects Estimates |
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themselves, and the direction, strength, and credibility of these effects can vary strongly across observations (Ai and Norton 2003). As the top two panels indicate, the interaction between a country’s cyclically-adjusted government deficit and its level of public Euroscepticism is positive when the deficit is higher than its mean (0 on the centered scale). The top-right panel visualizes the substantive implications of this effect: whereas increased levels of public Euroscepticism imply higher probabilities of transitioning into an EDP when deficit levels are close to (mean) or well above (high) the 3% threshold, Euroscepticism appears to make little difference when the Commission has little discretion because deficit levels are well below the 3% threshold (low).

The middle panels visualize the interaction between the Commission’s dual reputational threats: Euroscepticism in the target state and Euroscepticism in creditor states. As the right-hand middle panel shows, the Commission’s signal of resolve in the face of Euroscepticism in the target state is strongly conditional on Euroscepticism amongst creditor audiences: higher levels of public Euroscepticism in creditor countries increase the likelihood that the Commission launches an EDP in the face of Euroscepticism in the target state. Conversely, when Euroscepticism in creditor states is low, the tendency to signal resolve to audiences supportive of fiscal discipline almost fully disappears. Taken together, the findings regarding these two interaction effects corroborate H2a and suggests the Commission is less willing to signal resolve in the face of Euroscepticism if such signals are more likely to antagonize these audiences and produce a direct negative response toward the organization itself.

Turning to the remaining control variables, the base effect of public Euroscepticism in creditor countries is credibly negative. This negative effect results from the inevitable omission of a random effect that captures the temporal clustering of observations, the invariability of this predictor across countries, and its relatively low scores in the period when a large number of crisis-driven EDPs were opened (the Supplementary Appendix contains a detailed explanation). The estimate for the gross government debt is small, negative, and not sufficiently discriminant from zero. As stated above, this result is not surprising as, at the time of writing, the Commission has yet to open a debt-based EDP. None of the other included political variables seem to affect the opening of procedures in any meaningful way. Moreover, the second part of the OMM, which predicts the abrogation of EDPs, suggests the only predictor that affects Commission decisions to close EDPs is the predictor for a member state’s cyclically-adjusted government deficit. The results presented here are robust under various specifications of the OMM, including models that accounted for possible contextual effects.

Simulating EDP Enforcement
Posterior predictive checks are the only suitable method to assess the fit of a Bayesian Markov model, and I conducted checks similar to those employed by de Haan-Rietdijk et al. (2017) and Shirley et al. (2010) (see supporting information for a more extensive overview of the method and additional checks). Below I present the most intuitive of these checks: Figure 3 compares the model’s predicted country-specific EDP-trajectories to their empirically observed trajectories.
On average, the model does well in predicting the EDP-state of a given country-half year.\(^9,10\)

**Discussion and Conclusion**

This contribution has investigated the way public organizations seek to build their organizational reputation in contexts characterized by high audience heterogeneity and conflicting but dynamic reputational threats. It argued that public organizations operating under such conditions would prioritize threats by assessing the extent to which threats (1) speak to core functions of the organization and (2) are associated with audiences with greater mobilized capacity to retaliate if their interests are overlooked. In response,

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\(^9\) It is important to note that perfect prediction is not the goal of this exercise, and could limit generalization as it would suggest over-specification (McElreath 2015).

\(^{10}\) Greece transitions out of the EDP in 2006, while being in major breach of the deficit threshold during the observed period until 2016. The discrepancy, in this case, is explained by the structural misreporting of government finance statistics by the Greek government in the period leading up to the Greek crisis, which has since been corrected (European Commission 2010).
Figure 3. Predicted and Observed Trajectories by Country. Note: Posterior predictive checks for the country-specific EDP-trajectories in 2005–2018. Solid lines display the model’s predicted trajectories and dashed lines display the empirical trajectories. Predicted trajectories were calculated by taking the mean of state predictions for a country-half year.
these organizations were expected to send visible and costly signals to those audiences associated with prioritized threats in order to bolster their reputation amongst these audiences.

This study found empirical support for this argument by examining the long-term, differentiated, audience-induced reputation-seeking behavior by the European Commission in its capacity as EU fiscal supervisor, a supranational organization with a relatively weak but differentiated reputation for this specific task. The findings show that the organization prioritizes those threats that are more central to the core task of fiscal surveillance, thereby corroborating the importance of the centrality of a threat to the organization’s unique reputation found in earlier studies (Carpenter 2010; Gilad, Maor, and Bloom 2013; Maor, Gilad, and Bloom 2013). However, the organization is found willing to shift its prioritization of threats and audiences if changes in mobilization patterns among audiences alter the balance of reputational threats posed to the organization. Lastly, the findings shed light on a tendency to over-enforce EU fiscal rules in the face of Euroscepticism, which suggests public organizations may purposefully amplify the strength and direction of their signals in order to ensure signals reach their intended audiences.

These findings make a number of important contributions to debates on the reputation-seeking behavior of public organizations. Foremost, they shed light on the mechanisms and conditions underpinning organizational reputation-seeking behavior. By demonstrating the dynamism of such audience-induced behavior in response to changes in the organizational context over time, it furthers our understanding of differentiated reputation-seeking behavior based on cross-sectional studies (e.g., Carpenter 2002; Maor, Gilad, and Bloom 2013; Rimkuté 2019). By explicitly theorizing the heterogeneity of audiences and the associated conflicting reputational threats posed to public organizations, this contribution identified audience mobilization as an important driver of organizational audience prioritization. While audience mobilization has been examined implicitly in previous studies as a factor capable of inducing organizational responses (Alon-barkat and Gilad 2016; Carpenter 2010; Gilad and Chagai 2019), this study is the first to show how changes in levels of audience mobilization may directly lead to shifts in organizational attention and alter the prioritization of reputational threats. This has serious implications for bureaucratic reputation management practices, as mobilization patterns are prone to bandwagon effects and mobilization potential is not equally distributed across issues and audiences (Halpin 2011).

Moreover, by integrating signaling theory into the literature on reputation management, this study has also demonstrated the mechanisms underlying organizational responses to reputational threats. While scholars studying organizational reputation frequently describe the interaction between organizations and their audiences as an exchange of “signals” (e.g., Busuioc and Rimkuté 2019a; Carpenter 2002; Gilad, Maor, and Bloom 2013), concepts from signaling theory have thus far not been employed to refine accounts of reputation-driven behavior of organizations. A signaling perspective has the added value of providing explanations for differences in signal direction, strength, and costliness, both for signals received and sent by public organizations. The findings from this study suggest that the integration of signaling concepts yields more refined accounts of audience-induced behavior. Reputation theory, on the other hand, has the potential to make a valuable contribution to the literature on (political) signaling by offering an integrated and comprehensive account of the content and purpose of signals. Signaling theory explains the bow of information exchange between organizations and their environments (Connelly et al. 2011), whereas reputation theory explains the why.

Third, much of the recent literature on reputation management focuses on organizational communication, yet this study has focused on organizational outputs. Communication is of central importance for organizations’ reputation management practices (e.g., Busuioc and Rimkuté 2019a; Maor, Gilad, and Bloom 2013). The study of communication has also become more feasible due to advancements in the field of natural language processing and quantitative text analysis. Still, it is important that reputational scholars strike a balance between communication, which often includes symbolism (Alon-Barkat 2019), and concrete action in order to fully understand organizational behavior. This may be especially true in a world where the link between what politicians say and do is becoming increasingly murky.

Finally, the specific empirical case featured in this contribution has produced a number of key insights into the reputation management practices of supranational organizations, which often have weak or emergent reputations. First, it expands the application of reputation theory to supranational organizations beyond strictly regulatory ones (Busuioc and Rimkuté 2019a). By studying the high-profile and multi-faceted European Commission, the findings of this contribution suggest reputation theory can successfully be used to explain the behavior of supranational organizations that operate in environments characterized by high audience heterogeneity and divisive reputational threats more generally.

Second, the specific case of EU fiscal surveillance is one that has uniquely clear benchmarks, that is, clear
fiscal reference values, against which to evaluate the behavior of the European Commission. This allowed for a thorough examination of differences in audience-induced organizational behavior under varying levels of discretion. Bureaucratic reputation theory assumes that discretion is often a consequence of enjoying a strong reputation (Carpenter 2010; Carpenter and Krause 2012; Gilad 2013). However, this study suggests discretion is likely also an important necessary precondition for differentiated reputation-building in contexts of high audience heterogeneity. This finding furthermore indicates that unelected administrators are not necessarily less responsive to citizen’s preferences than elected officials (Miller 2013) but instead support emerging literature that suggests administrative discretion and democratic responsiveness often go hand-in-hand (e.g., Anderson and Potoski 2016; Kogan 2017).

Future research can build on these findings in a number of ways. Valuable lessons can be learned regarding what drives organizations to bolster the strength and costliness of outgoing signals by comparing organizations that vary in terms of the strength and nature of their reputation, the policy areas, and institutional contexts they operate in and the stage of the policy cycle they contribute to. Moreover, this study has operationalized audience heterogeneity by assessing divergence in audiences’ preferences and power. It has therefore neglected a third factor that likely shapes threat prioritization by public organizations: variation in audience attention. The importance of issue salience has been established in previous studies (Gilad, Maor, and Bloom 2013; Maor, Gilad, and Bloom 2013), but future research should endeavor to more explicitly hypothesize salience at the level of specific audiences. Future studies can integrate these findings by investigating the role of audience heterogeneity in terms of preferences, power, and attention, as well as examine the relative importance of each of these sources of variation between audiences. Finally, whereas reputational scholars have invested much energy into understanding the organizational side of reputation-seeking behavior, attention to the receptiveness of audiences to such behavior has been limited. Such attention should prove rewarding for our understanding of what makes signaling reputation effective.

**Supplementary material**

Supplementary material is available at the *Journal of Public Administration Research and Theory* online.

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**Data Availability**

The data underlying this article are available in the article and in its online Supplementary Material.

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