Audience heterogeneity, threat prioritisation and costly signalling: Bureaucratic reputation-building in the EU

ABSTRACT

How do public organisations in contexts of high audience heterogeneity prioritise between conflicting reputational threats, and how do they ensure reputation-seeking signals reach their intended audiences? This article finds that organisational threat prioritisation is shaped by the centrality of the threat to the organisation's distinct reputation, and by differences in audiences' capacity to put pressure on the organisation through mobilisation. The findings also suggest that public organisations strategically vary the observability and costliness of outgoing reputation-seeking signals in response to shifts in the balance of reputational threats posed to them. These findings are based on the longitudinal statistical modelling of over a decade of fiscal rule enforcement by the European Commission, a supranational organisation with a weak reputation operating in a context of high audience heterogeneity and severe reputational threats.

5.1 INTRODUCTION

Reputation-based explanations of bureaucratic behaviour have steadily been gaining ground in the realm of public administration scholarship (Alon-barkat & Gilad, 2016; Busuioc & Lodge, 2016; Gilad, 2015; Gilad et al., 2013; e.g. Maor et al., 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 organisations has only emerged more recently with Daniel Carpenter's (Carpenter, 2002, 2010) seminal work on reputation, power and the U.S. Food and Drug Administration. For Carpenter and scholars who have co-opted his lens, reputation is "a set of beliefs about a public organisation's capacities, roles, and obligations that are embedded in a network *of multiple audiences*" (Carpenter, 2010, p. 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 organisation. These audiences are often heterogeneous: different audiences with different interests may place simultaneous but conflicting demands on organisations, making the process of reputation management a difficult endeavour. This is especially true for organisations that have a weak or developing reputation for a specific function or trait (Maor et al., 2013). Yet despite the recurrent assumption in the literature that reputation management involves trade-offs between conflicting threats, we lack a comprehensive account of reputation-seeking behaviour by public organisations in the presence of multiple, heterogeneous audiences posing simultaneous, conflicting and dynamic reputational threats.

The most prominent question for understanding such behaviour remains: how do public organisations prioritise and signal different audiences when cultivating reputation? Existing studies on organisational responses to reputational threats have yielded valuable insights into responses to homogenous reputational threats, such as to public protests (Alon-barkat & Gilad, 2016; Gilad & Chagai, 2019) or negative media coverage (Maor, 2011; Maor & Sulitzeanu-Kenan, 2016). Others have captured the role of multiple audiences by proxy, for example through assumed reputational implications of statutory mandates (Busuioc & Rimkutė, 2019a; Rimkutė, 2019) or by capturing the centralisation of audiences (Rimkutė, 2018). Case-studies have established the presence of conflicting demands on public organisations, but leave this question untouched 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 organisational responses, depending on issue salience, the content of the threat, and centrality of the threat to the organisation's reputation. More recently, Boon et al. (2019) examined how organisational autonomy shapes audience prioritisation by public organisations, as self-reported by organisational staff.

While these studies offer important insights into audience prioritisation by organisations, they do not explain *how* audience prioritisation unfolds when organisations face multiple, conflicting and dynamic threats. How do organisations assess a 'balance of conflicting threats'? Does audience prioritisation change if this balance shifts over time? Moreover, if contexts of high audience heterogeneity require differentiated reputation management strategies, how do organisations ensure their signals reach their intended audience(s)? These questions are especially relevant as today's public organisations 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 endeavour to identify the mechanisms involved in reputation-seeking behaviour. Foremost, this implies identifying the dynamic conditions that shape organisational attention over time, including their sequencing and interactivity, with specific attention to the thresholds involved in shaping organisational responsiveness.

The present study seeks to close this knowledge gap by examining how public organisations build reputation in environments featuring multiple, heterogeneous audiences posing a dynamic balance of conflicting threats. It does so by examining the reputation-seeking behaviour of the European Commission in its role as the European Union's (EU) fiscal supervisor of national governments. The European Commission offers a most-likely and theoretically informative case of reputation management in a divisive context characterised by strong audience polarisation. As the EU's central bureaucracy, it has seen a steady expansion of its competences in relation to national fiscal policies in a period in which the EU itself has become increasingly contested amongst a growing set of audiences (Van der Veer & 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 prioritisation and enforcement behaviour, and highlights the role of audience mobilisation 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 organisational reputation scholarship. Foremost, it moves beyond Carpenter's (2010, p. 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 organisational audience prioritisation and reputation signalling. Second, by applying a reputational lens to the European Commission, it broadens the scope of the reputation literature

to include high-profile supranational organisations beyond strictly regulatory ones (cf Busuioc & Rimkutė, 2019b). The reputations of these organisations 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 organisational authority. Third, it returns a focus on tangible organisational outputs to a debate that has predominately focused on organisational communication in recent years.

5.2 REPUTATION AND AUDIENCE HETEROGENEITY

All public organisations face some degree of *institutional risk* as they perform the tasks delegated upon them (Rothstein, 2006), i.e. risks posed specifically to the organisation's institutional position. For example, poor organisational performance or strong political opposition can lead to budget cuts or a weakening of the mandate of the organisation. 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 organisational tasks in a competent way in the eyes of key audiences establishes a good reputation. This, in turn, is a valuable political asset and allows organisations to gain autonomy, enlist political and public support, and ensure institutional survival (Carpenter, 2010; Carpenter & Krause, 2012; Gilad, 2015). These reputations take time to cultivate, and require the constant employment of various reputation-balancing and protection tactics (Maor, 2011; Maor et al., 2013; Rimkutė, 2018).

What is considered a 'good' reputation depends on the functions and traits of the organisation (Carpenter, 2010; Carpenter & Krause, 2012). Organisations can highlight several reputational dimensions (Carpenter, 2010; Lee & 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 (specialisation, expertise and an adherence to scientific standards). Ultimately, organisations create a unique mix of these components to defend a 'reputational uniqueness' (Maor & Sulitzeanu-Kenan, 2016; Rimkutė, 2018): by signalling that they alone can effectively produce the desired outputs and outcomes, they negate the risk of mandate weakening or termination.

These reputations are constructed in the interplay between the organisation and the multiple audiences in its institutional environment, and audiences have the power to issue reputational threats to the executive (Carpenter, 2010; Maor & Sulitzeanu-kenan, 2013). A reputation-sensitive organisation takes important audiences into account as it engages with its external environment. This is especially the case when the reputation of the organisation for the specific task or trait at stake is weak or emergent (Maor et al., 2013), and when threats challenge more constitutive elements of an organisation's reputation (Gilad et al., 2013). Organisational legitimacy is ultimately "a product of successful reputation management by selectively responding to various reputational threats" (Rimkutė, 2018, p. 72).

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

Threat prioritisation

Public organisations that have weak or emergent reputations and operate on contexts of high audience heterogeneity must assess the balance of threats emanating from their environments and prioritise audiences accordingly. Based on the preceding discussion, we can assume that it is these same characteristics shaping audience heterogeneity that determine how organisations prioritise audiences: cues regarding audience's preferences and power are used to estimate the relative strengths of reputational threats. Preferences matter for prioritisation in two ways. First, the more an organisation's actions deviate from an audience's preferences, the more the organisation is likely to face reputational losses for this audience. Second, the more this preference-behaviour divergence relates to a more central element of the organisation's mandate, the more painful the associated reputational losses will be (Carpenter, 2002; Gilad et al., 2013). If threats are irreconcilable and target different elements of a reputation, organisations will prioritise threats that speak to more vital elements of that reputation.

However, even if preference-behaviour 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 organisation.

Thus, in contexts of high audience heterogeneity, we should also observe stronger organisational sensitivity to threats issued by audiences that are more capable of *mobilizing* against the public organisation (Alon-barkat & Gilad, 2016; Gilad & Chagai, 2019). Audiences that are able to overcome collective action problems through mobilisation, for example by amassing financial or political resources, can apply more pressure on an organisation. Thus, reputational losses for these

audiences will be more alarming for the organisation, and should solicit stronger organisational responses in return. Hence, it seems likely that organisational responses to conflicting threats reflect both their centrality to the organisation's distinct reputation, as well as the balance of strength of the audiences tied to these threats.

H1a-b: When facing conflicting reputational threats, public organisations with weak or emergent reputations will prioritise those threats that (a) speak more directly to core functions or traits of the organisation and that (b) yield reputational losses for audiences with greater mobilised means to harm the institutional position of the organisation.

Costly signalling

Reputation theory assumes that organisational responses to threats are carefully calibrated to cultivate a positive reputation for a specific organisational function or trait. In other words, they mean to *signal* key virtues or traits to those audiences prioritised by the organisation. Originally employed to explain how job applicants use the attainment of a higher education degree to signal their quality to potential employers (Spence, 1973), signalling 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 et al., 2005; Fearon, 1997; Hennessy, 2017). Effective signals have two things in common: they are *observable*, and *costly to the signalling 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 signalling 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, i.e. by openly 'tying their hands' in public.

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

H1c: In response, public organisations will send visible and costly signals intended to bolster reputation for the function or trait under threat to the audiences associated with the threats taking priority.

5.3 THE EUROPEAN COMMISSION AND ITS CONFLICTING EUROSCEPTIC THREATS

Supranational public organisations generally face more challenges to their legitimacy and authority than their national counterparts (Koppell, 2008). This is especially the case regarding fiscal surveillance in the European Union, a task delegated to the Commission because of the strong economic and monetary dependency between member states (Heipertz & Verdun, 2010). EU law enables the Commission to invasively scrutinise, demand changes to and ultimately sanction EU member state governments over *national* fiscal policies. Yet it is the Council, the collective of these governments, which must endorse Commission decisions on fiscal surveillance and decides on future EU treaties that establish the Commission's mandate. This confounded principal-agent relationship greatly enhances the institutional risk of mandate weakening or termination in case of poor performance for the Commission.

Second, supranational organisations operate in contexts featuring far more, and more heterogeneous, audiences than their national counterparts (Rimkutė, 2019). The enforcement of EU fiscal rules vis-à-vis one 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 & 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 these rules has been strongly contested from the outset (Heipertz & 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, & Zangl, 2018). Other audiences, including citizens and politicians in debtor states, have challenged the Commission's procedural reputation and argue fiscal surveillance centralises 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 & Marks, 2009; Zürn, 2019). Anti-European sentiments have swept across the continent and Eurosceptic parties have taken hold and shaped the broader political landscape (Hobolt & de Vries, 2016; Meijers, 2017). They have profoundly affected the EU, from Brexit to the Commission's ability to source

employees from Eurosceptic member states (Gravier & Roth, 2019). Grievances against the EU vary considerably over time and space, however, and are strongly related to grievances over EU (macroeconomic) policy (Lauterbach & Vries, 2020). During the economic crisis, much of the Euroscepticism in creditor countries stemmed from a 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 such as 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 UK. 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 & 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 characterised by high levels of audience heterogeneity (Carpenter & Krause, 2012)?

Commission resolve and Eurosceptic mobilisation

In line with the general expectations regarding threat prioritisation and costly signalling 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 prioritisation of creditor audiences a likely scenario. First, creditor audiences favouring strict enforcement are a larger, jointly more powerful set of audiences than the audiences favouring 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 organisation'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 et al., 2013).

As the organisational 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 scrutinise member states to a greater extent, and argue such "regulatory entrenchment" serves to signal resolve to other audiences. This tendency of organisations to signal resolve in the face of external pressure has been corroborated in different contexts (Gilad, 2009; Rimkutė, 2018). This leads to the following contextualisation of H1c:

> *H2c: The Commission will be stricter in applying fiscal surveillance measures for member states that are more Eurosceptic (H1c).*

Moreover, if the driving logic behind the signalling 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 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 non-existent when a member state is not (at risk of) breaching EU fiscal rules. Euroscepticism alone should not lead to the application of surveillance measures if no fiscal problems are present. 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 signalling 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.

> *H2a: The tendency to be stricter 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 (H1a).*

However, signalling 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 favour signalling resolve to creditor audiences, unless changes in the balance of reputational threats amplify the threat of over-enforcement relative to that of under-enforcement.

Eurosceptic audiences in the target state can mobilise by mounting Eurosceptic protests or by voting for political parties that campaign on Eurosceptic policy agendas (Meijers, 2017; Rauh, 2019). Eurosceptic audience mobilisation amplifies the reputational threat to the Commission, because mobilised 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 Eurosceptic stance. Eurosceptic movements also politicise Europe to a greater extent, raising the salience of Commission decisions amongst a broader set of audiences. Thus, it is plausible that the mobilisation of Eurosceptic audiences in the target state may shift the audience prioritisation of the Commission:

> *H2b: The tendency to signal resolve in the face of Euroscepticism in the member state under surveillance is weaker when Eurosceptic audiences in that member state mobilise politically (H1b).*

5.4 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.[23] 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, 2019b; Heipertz & 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, *strictness of fiscal surveillance*, is

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

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).[24] Common to the biomedical sciences, Markov models allow the explicit modelling of longitudinal state-switching processes (e.g. Shirley, Small, Lynch, Maisto, et al. 2010; Siebert et al. 2012). More recently, they have been introduced in the behavioural 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 allows 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.[25] The estimation process is characterised 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'). 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.

I use an adaptation of the mixed OMM developed by de Haan-Rietdijk et al. (2017), which includes a random intercept for countries. This OMM takes the observed state transitions over time and estimates the transition probabilities, π_{ijnt}, for member state n in year t from state i to state j. Table 5.1 presents the transition probabilities estimated in an OMM for EDP enforcement. The two possible between-state transitions (π_{12} and π_{21}) are each modelled by a logit within

24 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.

25 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').

the OMM. A more detailed description of the 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 appendix.

Table 5.1. Transition probabilities for a two-state observed Markov model

$state_{nt+1}$ / $state_{nt}$	no EDP (1)	EDP (2)
no EDP (1)	π_{11}	π_{12}
EDP (2)	π_{21}	π_{22}

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 organisation's reputation (Lee & Van Ryzin, 2019). Second, given the EU's institutional complexity, citizens take cues on the EU and generally evaluate EU institutions through a single attitude dimension (Arnold, 2012; Hobolt, 2007).[26, 27] 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.[28]

I capture the level of *mobilisation* 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).[29]

26 The Eurobarometer also included an item asking whether membership of the EU was a good thing, but this measure was removed in waves since 2011.

27 The correlation between negative responses on the image and trust items is 0.601. Using the trust measure in the OMM presented below yields estimates that are identical in direction but weaker in size.

28 These four Eurozone countries were selected because their governments have been the most consistent and fervent opponents of leniency towards EU debtor states over the past decades (Schimmelfennig, 2015). The measure captures the average share of Eurosceptic citizens across these countries. For the four countries included in this measure, the scores of this variable are based only on the other three (i.e. values for Austria are only based on Germany, Finland and the Netherlands as Austria's own level of public Euroscepticism is in this case captured by the Public Euroscepticism MS variable).

29 I imputed wave-specific party family means for those parties that did not appear in the CHES dataset Party families were determined using Döring and Manow (2016)'s ParlGov database.

Control variables

I include several control variables to minimise the possibility that omitted variables bias the model's estimates and describe their operationalisation in more detail in the 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 to 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 (European) Council has always been an important factor in EU decision making, and politically stronger member states have a stronger bargaining position vis-a-vis the Commission (e.g. Baerg & 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 & van der Veer, 2016). The final included measure captures the *electoral cycle* of a member state, i.e. the number of years until the next general election in that member state. Table 5.2 contains descriptive statistics for the outcome and predictor variables prior to centring and standardisation.

Table 5.2. Descriptive Statistics

	Grand mean	SD	Min	Max
EDP	1.416	0.493	1	2
Gross government debt (% of GDP)	61.276	35.048	3.664	181.13
Cyclically-adjusted government deficit (% of GDP)	2.313	3.285	-6.268	29.843
Voting power	3.658	3.13	0.8	14.43
Public Euroscepticism MS	0.194	0.096	0.043	0.594
Euroscepticism MS parliament	0.159	0.182	0	0.908
Public Euroscepticism creditor countries	0.243	0.042	0.143	0.342
Government position on EU	5.736	1.107	1.5	7
Government position left-right	5.559	1.578	1.053	8.684
Electoral cycle	1.726	1.247	0	4.5

Note: N=756, n=28, t=27

Centring and standardisation

All predictors, except the measure for the electoral cycle, are lagged (t_{-1}) to ensure predictors recede 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_{-0}), whereas those opened in spring are usually opened based on outturn data of the previous year (t_{-1}). The measure for the electoral cycle is not lagged as future elections dates are (roughly) known in advance. Moreover, the method of centring of predictors is an important consideration for multilevel models that affects both the parameter estimates and their substantive interpretation (Enders, 2013; Enders & Tofighi, 2007; Gelman & Hill, 2007). I centre all predictors on their grand mean: this way predictors retain their within- and between-country variation, as it is reasonable to expect that both within- and between-country differences affect enforcement. Consequently, estimates below present composite effects: these are weighed estimates of the individual- and group-level effects based on within- and between-group association (Enders, 2013). To further aid interpretability, continuous predictor variables are standardised by two standard deviations (Gelman and Hill, 2007).

5.5 RESULTS

Table 5.3 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, i.e. 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 (π) for a one-unit change on a predictor. The intercept for the first transition logit (π_{12}) 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.

A first important finding is that, as expected, the estimate for government deficits is by far the strongest predictor of EDP enforcement. The odds ratio for the effect of a one-unit (two SD, see Table 5.2) increase in a government's deficit indicates the probability of entering an EDP increases by (π_{12}·60.582=) 5958.2%, i.e. 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 5.1 visualises this relationship relative to the SGP's 3% deficit threshold.

Table 5.3. OMM fixed effects estimates

	Estimate (median)	Uncertainty (PSD)	2.5% HPD	97.5% HPD	OR
π_{12}	-4.549	0.724	-6.046	-3.224	-
$\Sigma(\varepsilon)_{11}$	0.479	0.598	0.065	1.716	-
Gross government debt$_{12}$	-0.537	0.746	-2.041	0.89	0.584
Cycl.-adjusted government deficit$_{12}$	4.104	1.067	2.188	6.322	60.582
Voting power$_{12}$	0.858	0.633	-0.376	2.123	2.357
Public Euroscepticism MS$_{12}$	2.616	1.305	0.209	5.261	13.681
Euroscepticism MS parliament$_{12}$	-0.549	0.724	-2.046	0.808	0.577
Euroscepticism creditor countries$_{12}$	-3.947	1.283	-6.551	1.553	0.019
Government position EU$_{12}$	-0.255	0.617	-1.438	0.988	0.775
Government position left-right$_{12}$	-0.385	0.58	-1.496	0.798	0.68
Electoral cycle$_{12}$	0.071	0.498	-0.923	1.04	1.074
Pub. Eurosc. MS·Deficit$_{12}$	2.378	2.007	-0.989	6.708	10.783
Pub. Eurosc. MS·Eurosc. MS par.$_{12}$	-1.368	1.52	-4.656	1.262	0.255
Pub. Eurosc. MS·Eurosc. cred.$_{12}$	4.236	2.196	0.305	8.742	69.131
π_{21}	-1.562	0.281	-2.119	-1.01	-
$\Sigma(\varepsilon)_{22}$	0.328	0.307	0.069	0.97	-
Gross government debt$_{21}$	-0.841	0.623	-2.057	0.392	0.431
Cycl.-adjusted government deficit$_{21}$	-4.157	1.045	-6.352	-2.305	0.016
Voting power$_{21}$	0.252	0.514	-0.784	1.242	1.286
Public Euroscepticism MS$_{21}$	-0.738	0.59	-1.917	0.392	0.478
Euroscepticism MS parliament$_{21}$	0.273	0.553	-0.818	1.337	1.314
Euroscepticism creditor countries$_{21}$	-0.214	0.433	-1.055	0.634	0.807
Government position EU$_{21}$	-0.101	0.46	-0.953	0.835	0.904
Government position left-right$_{21}$	-0.251	0.408	-1.08	0.527	0.778
Electoral cycle$_{21}$	0.007	0.407	-0.772	0.828	1.007
Pub. Eurosc. MS·Deficit$_{21}$	0.403	0.985	-1.594	2.276	1.497
Pub. Eurosc. MS·Eurosc. MS par.$_{21}$	-0.706	0.795	-2.346	0.771	0.494
Pub. Eurosc. MS·Eurosc. cred.$_{21}$	-0.54	0.784	-2.084	0.988	0.583
$\Sigma(\varepsilon)_{12}$	-0.027	0.271	-0.638	0.44	-

Note: $\Sigma(\varepsilon)_{11}$ and $\Sigma(\varepsilon)_{22}$ are the variances of the random logit deviations ε_{12} and ε_{21} respectively, and indicate the size of the random intercepts. $\Sigma(\varepsilon)_{12}$ is the covariance between these two random effects. See the appendix for plots of the random effects.

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 π_{12} (0.011·13.681=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 H2c 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.

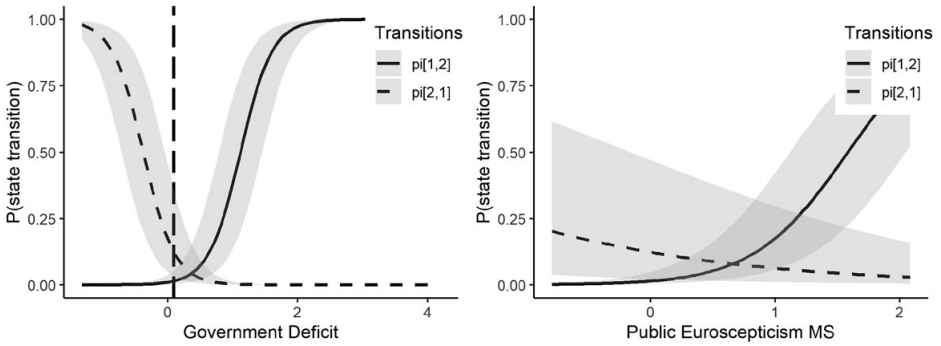

Figure 5.1. The marginal effects of Deficit and public Euroscepticism
Note: Marginal effect plots for the deficit (left) and public Euroscepticism (right) predictors included in the OMM. These plot the model-implied probabilities of transitioning between states (y-axis) across the range of observed values of the predictor (x-axis, 0 = grand mean). These plots visualise the effects across the range of observed values of a predictor while the deficit is 3% (right panel only) and all other predictors are at their respective grand means. The dashed vertical line in the left panel indicates the SGP's 3% deficit threshold.

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 5.2. Importantly, the marginal effects of interactions in non-linear models are often non-linear themselves, and the direction, strength and credibility of these effect can vary strongly across observations (Ai & 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 centred scale). The top-right panel visualises 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 visualise 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 signalling of resolve in the face of Euroscepticism is stronger when the Com-

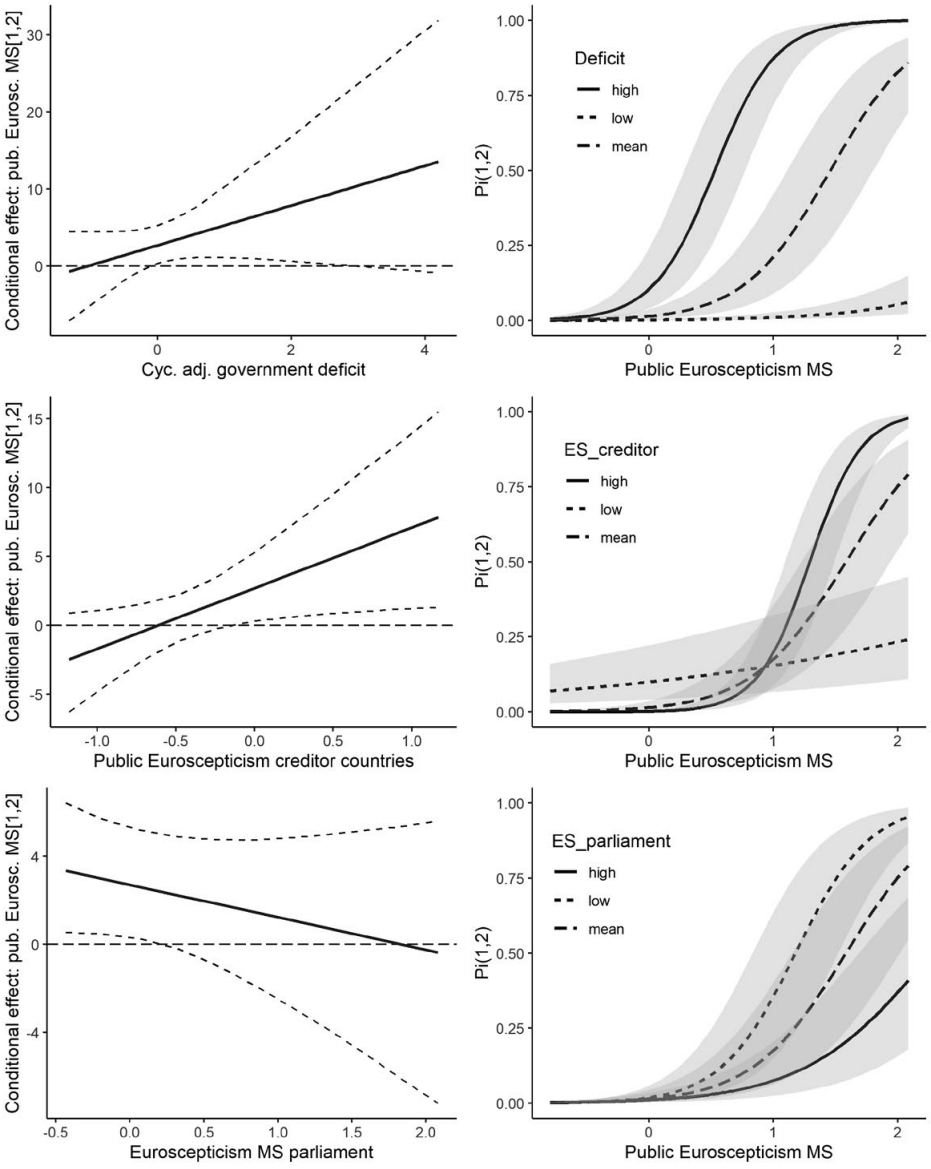

Figure 5.2. The conditionality of the effect of public Euroscepticism in the target state

Note: Conditional effect plots for entering the EDP for the three interaction effects included in the OMM. The three left-hand panels plot the conditional effect of public Euroscepticism in the target state across the range of observed values on the moderators, whereas the right-hand panels plot the model-implied probabilities of entering the EDP (y-axis) across the observed range of values of public Euroscepticism in the target state (x-axis) for member states with average, high (mean + SD) and low (mean – SD) scores on the moderators. The deficit is set to 3% (middle and lower plots only) and all other predictors are at their grand means.

mission's reputation regarding the core task of fiscal surveillance is threatened to a greater extent. The bottom panels of Figure 5.2 indicate that the tendency to signal resolve credibly decreases when Eurosceptic audiences in the target state successfully mobilise politically: the tendency to signal resolve in the face of Euroscepticism is only present when levels of mobilisation are low. This finding corroborates H2b and suggests the Commission is less willing to signal resolve in the face of Euroscepticism if such signals are more likely to antagonise these audiences and produce a direct negative response toward the organisation 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 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 the appendix for a more extensive overview of the method and additional checks). Below I present the most intuitive of these checks: Figure 5.3 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.[30, 31]

30 It is important to note that perfect prediction is not the goal of this exercise, and could limit generalisation as it would suggest overspecification (McElreath, 2015).

31 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 have since been corrected (European Commission, 2010b).

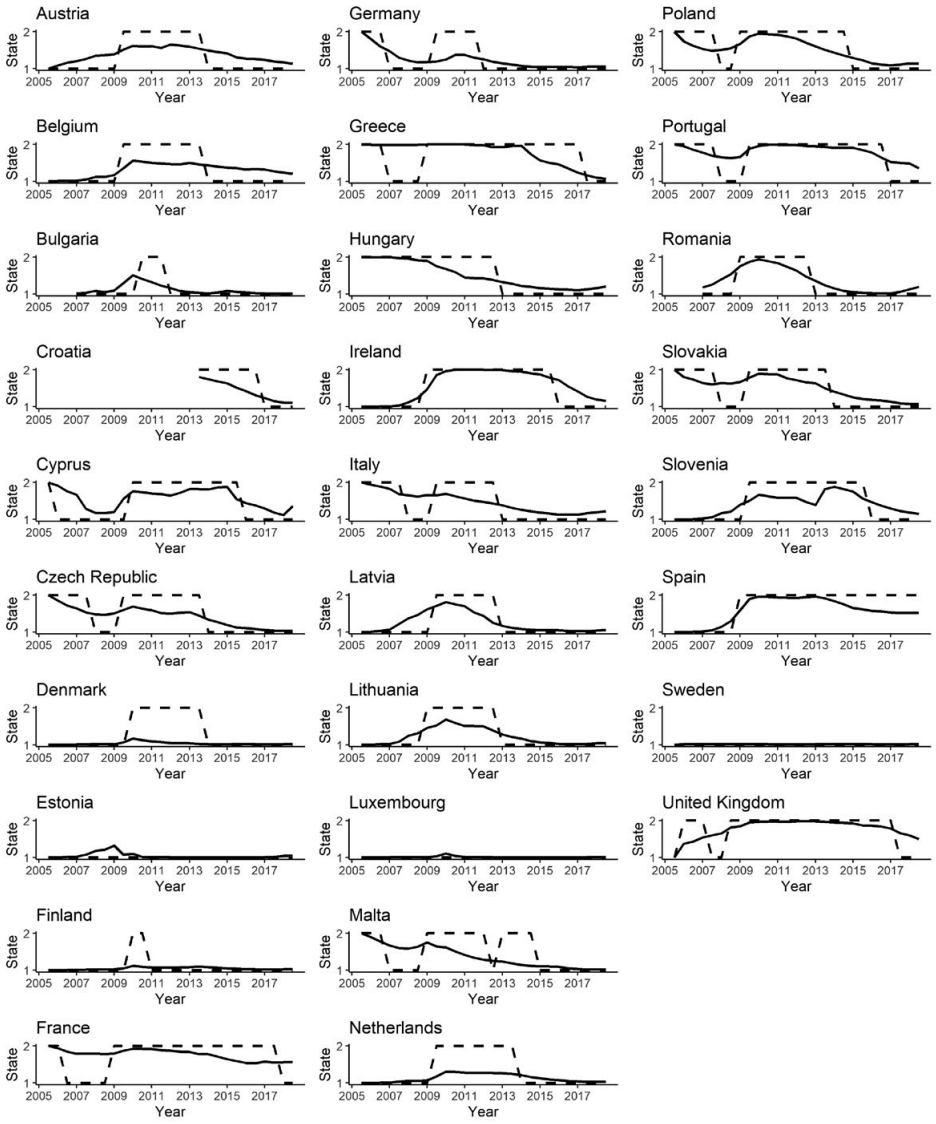

Figure 5.3. Predicted and observed trajectories by country

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.

5.6 DISCUSSION AND CONCLUSION

This contribution has investigated the way public organisations with weak reputations seek to build their organisational reputation in contexts characterised by high audience heterogeneity

and conflicting but dynamic reputational threats. It argued that public organisations operating under such conditions will prioritise threats by assessing the extent to which threats 1) speak to core functions of the organisation and 2) are associated with audiences with greater mobilised capacity to retaliate if their interests are overlooked. In response, these organisations were expected to send visible and costly signals to those audiences associated with prioritised 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 behaviour by the European Commission in its capacity as EU fiscal supervisor, a supranational organisation with a weak but differentiated reputation for this specific task. The findings show that the organisation prioritises 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 organisation's unique reputation found in earlier studies (Carpenter, 2010; Gilad et al., 2013; Maor et al., 2013). However, the organisation is found willing to shift its prioritisation of threats and audiences if changes in mobilisation patterns among audiences alter the balance of reputational threats posed to the organisation. Lastly, the findings shed light on a tendency to *over-enforce* EU fiscal rules in the face of Euroscepticism, which suggests public organisations with weak reputations 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 the existing debates on the reputation-seeking behaviour of public organisations. Foremost, they shed light on the mechanisms and conditions underpinning organisational reputation-seeking behaviour. By demonstrating the dynamism of such audience-induced behaviour in response to changes in the organisational context over time, it furthers our understanding of differentiated reputation-seeking behaviour based on cross-sectional studies (Carpenter, 2002; Maor et al., 2013; e.g. Rimkutė, 2019). By explicitly theorizing the heterogeneity of audiences and the associated conflicting reputational threats posed to public organisations, this contribution identified audience mobilisation as an important driver of organisational audience prioritisation. While audience mobilisation has been examined implicitly in previous studies as a factor capable of inducing organisational responses (Alon-barkat & Gilad, 2016; Carpenter, 2010; Gilad & Chagai, 2019), this study is the first to show how changes in levels of audience mobilisation may directly lead to shifts in organisational attention and alter the prioritisation to reputational threats. This has serious implications for bureaucratic reputation management practices, as mobilisation patterns are prone to bandwagon effects and mobilisation potential is not equally distributed across issues and audiences (Halpin, 2011).

Moreover, by integrating signalling theory into the literature on reputation management, this study has also demonstrated the mechanisms underlying organisational responses to reputational threats. While scholars studying organisational reputation frequently describe the interaction between organisations and their audiences as an exchange of 'signals' (e.g. Busuioc & Rimkutė, 2019a; Carpenter, 2002; Gilad et al., 2013), concepts from signalling theory have thus far not

been employed to refine accounts of reputation-driven behaviour of organisations. A signalling perspective has the added value of providing explanations for differences in signal direction, strength and costliness, both for signals received and sent by public organisations. The findings from this study suggest that the integration of signalling concepts yield more refined accounts of audience-induced behaviour. Reputation theory, on the other hand, has the potential to make a valuable contribution to the literature on (political) signalling by offering an integrated and comprehensive account of the *content* and *purpose* of signals. Signalling theory explains the *how* of information exchange between organisations and their environments (Connelly et al., 2011), whereas reputation theory explains the *why*.

Third, much of the recent literature on reputation management focusses on organisational communication, yet this study has focused on organisational outputs. Communication is of central importance for organisations' reputation management practices (e.g. Busuioc & Rimkutė, 2019a; Maor et al., 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 and concrete action in order to fully understand the symbolic side of organisational behaviour. 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 organisations with weak reputations. First, it expands the application of reputation theory to supranational organisations beyond strictly regulatory ones (Busuioc & Rimkutė, 2019a). By studying the high-profile European Commission which has executive as well as legislative mandates, the findings of this contribution suggest reputation theory can successfully be used to explain the behaviour of supranational organisations that operate in environments characterised 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, i.e. clear fiscal reference values, against which to evaluate the behaviour of the European Commission. This allowed for a thorough examination of differences in audience-induced organisational behaviour under varying levels of discretion, indicating that reputation-seeking behaviour is also a function of administrative discretion. Bureaucratic reputation theory assumes that discretion is often a consequence of enjoying a strong reputation (Carpenter, 2010; Carpenter & Krause, 2012; Gilad, 2015). 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 & Potoski, 2016; Kogan, 2017).

Future research can build on these findings in a number of ways. Valuable lessons can be learned regarding what drives organisations to bolster the strength and costliness of outgoing signals by comparing organisations 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 operationalised audience heterogeneity by assessing divergence in audience preferences and power (through mobilisation). It has therefore neglected a third factor that likely shapes threat prioritisation by public organisations: variation in attention paid by audiences. The importance of issue salience has been established in previous studies (Gilad et al., 2013; Maor et al., 2013), but future research should endeavour to more explicitly hypothesise 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 organisational side of reputation-seeking behaviour, attention to the receptiveness of audiences to such behaviour has been limited. Such attention should prove rewarding for our understanding of what makes signalling reputation effective.