Organizational Reputation, Regulatory Talk and Strategic Silence*

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Abstract

How do reputational concerns affect regulatory agencies’ inclination to counter public scrutiny? Under what conditions are regulators inclined to respond to criticism, and when are they disposed to keep silent? Based on quantitative content analysis of the Israeli Supervisor of Banks’ responses to criticism from 1998 until mid-2009, we show how this agency tends to keep silent over issues regarding which it generally enjoys a strong reputation, and to respond to opinions about core functional areas with regards to which its reputation is weaker. We further find that this Supervisor’s inclination to respond varies by media salience and across audience groups. These findings, while based on one case, are important because they indicate that reputational concerns create distinct communicative patterns across audiences and functional areas. They also demonstrate that words are action, and, occasionally, so is regulatory silence.
Introduction

How do reputational concerns affect the inclination of regulatory agencies to keep silent or respond when facing public criticism? This question is an important one if we believe that communication has an independent role to play in government agencies’ attempts to actively construct the way in which their multiple audiences judge their performance. It is important because it transcends the general claim that agencies make decisions so as to maximize stakeholders’ positive feedback and minimize adverse feedback (e.g., Carpenter 1996; Moe 1985; Noll 1985; Olson 1995; Wood and Waterman 1991) to study the mechanisms underlying government agencies’ sensitivity to some audience signals over others. It is also important inasmuch as current analyses of public communication management (Yeung 2005, 2006, 2009) and strategies (Hood 2011) fail to adequately capture the energy and sophistication invested by agencies in an attempt to manage the expectations of their external audiences.

Based on a reputational approach, this paper analyses the ways agencies “balance” audiences’ conflicting views and assessment criteria. It develops an analytical framework which anticipates that the strength of a regulator’s reputation – and by implication its reputation across functional areas – shapes its choice between silence and talk. Specifically, the paper looks at the attempts by a bank regulator to construe its audiences’ perceptions and examines how this preoccupation establishes distinctive patterns in the regulator’s communication with its audiences. This endeavor coincides with the effort to translate the admittedly vague concept of reputation into actions by institutional actors.1 “Organizational reputation” refers to a set of symbolic beliefs held
by audience networks as to the actual performance of an organization, as well as its
capabilities, roles, and obligations to accomplish its primary organizational mission.\(^2\) In
order to undertake this effort, the paper draws on recent developments in institutional
political science that view regulators as generally rational, and politically conscious
agents that seek and act to protect their organizational reputations.

The paper hypothesizes that (i) a “unified regulator” – i.e. one whose mandate
involves more than one core function – is likely to respond to opinions about core
functional areas with regards to which it has a generally weak reputation, and to keep
silent over functions regarding which it generally enjoys a strong reputation; (ii) a
regulator will be more inclined to respond to criticism when press coverage of the issue at
hand, or of the regulatory agency, is relatively intense, and (iii) a unified regulator is most
likely to respond to opinions when it lacks control over those who are voicing those
opinions in the public domain, and over the venue of further negotiations with these
sources of opinion. Our empirical investigation involves media content analysis of a
unified regulator’s inclination to respond to audience opinions across functional areas. It
focuses on the Israeli bank supervisor’s communication, as reflected in the press, from
1998 to mid 2009. This regulator is institutionally situated in the Bank of Israel, and is in
charge of prudential supervision (i.e., safeguarding banks’ financial stability), consumer
protection (i.e. scrutinizing the terms and quality of banks’ sales and services to retail
customers), fraud control (i.e., mitigating fraudulent behavior by bank employees), and
ensuring that banks’ internal systems of governance and control support these regulatory
missions.
The findings provide strong support for the first two hypotheses and partial support for the third hypothesis. During the period under examination, the Israeli bank supervisor enjoyed overall positive media coverage of its performance regarding prudential regulation in comparison with other functional areas. In line with our analytical framework, it was found that the regulator is likely to keep silent when faced with opinions regarding prudential regulation compared with other functional areas in relation to which its reputation is weaker. Higher propensities to respond at times when overall media coverage of the regulator is intense, and when negative opinions (in comparison with positive and mixed opinions) are raised, were also recorded. It was also found that the regulator is likely to respond to opinions made by powerful actors – politicians and non-financial business – compared with its inclination to respond to members of diffuse groups (consumers).

These findings are theoretically significant because they demonstrate that words are action, and, occasionally, so is regulatory silence. They show that the impact of external signals intensity is tempered by agencies’ strategic balancing of their overall reputation. The regulator balances silence and talk as strategic actions across different audiences and/or functional areas in an attempt to manage conflicting judgment criteria by external audiences. In so doing, we challenge those whose focus has been on regulators’ passive response to external audiences to further analyze agencies’ active construction of audience perceptions. These findings are important also because they provide support for a reputation and audience-based explanation (Carpenter 2001, 2010a) in the neglected field of regulatory communications. They indicate that reputational concerns create distinct communicative patterns across audiences and functional areas.
The findings further contribute to the scarce research on public communication management by constructing a unique dataset of regulatory response and non-response to criticism, and thereby highlighting patterns of regulatory silence. Last, we also contribute to the literature on central bank communication which has so far focused exclusively on communication with financial markets. The findings support Blinder et al.’s (2008, 58) calls for attention shift of central banks communication scholars towards communication with the general public across functional areas.

The paper is structured as follows. The first section surveys the relevant literature, the second outlines the analytical framework and the derived hypotheses, the third provides the institutional background, the fourth elaborates on the methodology employed, the fifth presents the empirical analysis, and the last section presents the article’s conclusion and implications.

Surveying the Field of Regulatory Responsiveness and Communication

Two distinct theoretical streams explain the relationships between regulatory agencies and their audiences. The first focuses on agencies’ passive responsiveness to audience signals as embodied in organizational behavioral outputs, such as enforcement patterns (e.g., Carpenter 1996; Moe 1985; Noll 1985; Olson 1995; Wood and Waterman 1991). The popular adage of this stream is that agencies make decisions so as to maximize stakeholders’ positive feedback and minimize adverse feedback. Dovetailing with this tradition, a more recent scholarship turns to analysis of bureaucrats’ active construction of their autonomy, legitimacy and reputation in the eyes of external stakeholders
The second theoretical stream focuses on public communication management. It addresses issues pertaining to the government’s use of the media in pursuit of its policy objectives (Yeung 2005, 2006, 2009) and the ways by which blame avoidance strategies are manifested in presentational and “spin” activity, in the architecture of organizations, and in the shaping of standard operating routines (Hood 2010). The aforementioned literatures rarely speak to each other, although they are closely linked in their recognition that outside/audience groups often employ “conflicting judgment criteria” (Rothstein, Huber, and Gaskell 2006, 96). These literatures have not paid explicit attention to the way in which regulators’ distinct reputations shape their inclination to respond when managing their audiences multiple expectations.

Alongside the aforementioned theoretical streams, is an expanding field of research on central bank communication (for a survey of the literature, see Blinder et al. 2008). This literature is mostly empirical in nature and deal with the ways central bank communication creates news (e.g., how central bank’s talk influence expectations and therefore move asset prices) and reduce noise (e.g., how central bank talk increases the predictability of its actions, hence reducing volatility in financial markets). Key empirical questions are derived from the desire to find the optimal communication strategy in terms of its contribution to the effectiveness of monetary policy. The very few theoretical contributions in this area revolve around the concept of central bank transparency (Faust and Svensson 2001), assuming that the more independent a central bank is, the more accountable, hence transparent it should become (Blinder et al. 2008). A key limitation of this research which deals with the optimal level of transparency (e.g., Cukierman and
Meltzer 1986; Geraats 2002; Cruijsen and Eijffinger 2007) is its focus on central bankers’ talk with financial markets, to the exclusion of the general public, and on the variance in communication strategies across central banks or across time, rather than across functional areas (e.g., monetary and macroeconomic areas). This paper primarily contributes to the line of research that focuses on public communication management and to the study of central bank communication. It does so by emphasizing that communication has an independent role to play in government agencies’ attempts to actively construct the way in which their multiple audiences judge them across functional areas.

**Talk, Whisper and Strategic Silence in Regulation: An Analytical Framework**

The analytical framework advanced here draws on recent developments in institutional political science that view regulators as generally rational and politically conscious organizations interested in protecting their unique reputation (Quirk 1980; Rourke 1984; Wilson 1989; Heimann 1997; Whitford 2002; Carpenter 2001, 2004, 2010a, 2010b; Gilad 2009; Gilad and Yogev 2011; Krause and Douglas 2005; Maor 2007, 2010, 2011; Maor and Sulitzeanu-Kenan forthcoming). Organizational reputations “are valuable political assets – they can be used to generate public support, to achieve delegated autonomy and discretion from politicians, to protect the agency from political attack, and to recruit and retain valued employees” (Carpenter 2002, 491). “Reputation uniqueness” according to Carpenter (2001, 5) refers to the demonstration by agencies that they can create solutions (e.g., expertise, efficiency) and provide services (e.g., moral protection) found nowhere else in the polity.
The central concept in reputation-based explanations is “audience”, namely “any individual or collective that observes a regulatory organization and can judge it” (Carpenter 2010a, 33). Not surprisingly, the core argument of reputation-based explanations is as follows: “when trying to account for a regulator's behavior, look at the audience, and look at the threats” (Carpenter 2010b, 832; italics in original). The multiplicity of audiences means that different visions of the agency prevail among different constituencies (Carpenter 2010a, 391), and that different threats to reputation may emerge from different audiences. It also means that these different threats are likely to be met by regulators’ attempt to align between their own vision of the agency and those of their audiences, and that communications are likely to play an important part in this endeavor. Agency officials may carefully calibrate their communicative actions in order to construe the way in which their audiences judge their success or failure. They may craft their rhetoric in order to increase the regulator’s popularity and protect it from audience-based pressures (e.g., Carpenter 2010a, 391).

If a communicative dynamics perspective is to effectively encompass the broad range of relations between regulators and their audiences, it must be built on analytical building blocks which are elastic enough to accommodate strategic silence. In its more formal version, strategic silence is “a self imposed guideline of abstaining from communication around policy meetings and other important events” (Ehrmann and Fratzcher 2008, 6) or over policy issues. Silence has many potential benefits for regulators. In contrast to “no comment” – a response which can be interpreted as an acknowledgment of guilt, the decision to opt for strategic silence may be understood by relevant audiences as a reflection of a regulator’s confidence in its position, patience and
composure (Smith 2005, 113). It also communicates that the regulator works on the problem at hand and refuses to be sidetracked into talking much about it. It may be also used to shorten the life-span of a crisis situation (Smith 2005, 113), and to limit excessive market volatility before critical events (Ehrmann and Fratzcher 2008).

In addition, all other things being equal, regulators prefer to avoid making any premature representations when they do not want to commit themselves or anchor expectations. They may be wary of talking about matters on which they receive noisy signals, such as trends in the evolution of the policy domain (Blinder 2009, 3). And they may try to minimize as much as possible the need for swift decisions over these areas which are not thoroughly thought of, and to avoid any danger of a cacophony when the regulator speaks with uncoordinated and inconsistent voices (Blinder 2004).

More generally, agency officials face strong incentives to keep silent in order to avoid a strong association in the eyes of their publics between themselves and demands for a change or criticism for failures. They may therefore try to keep the regulator out of public debate in an attempt to avoid issues related to these areas and the regulator’s name being mentioned in the same breath. However, regulators’ ability to safely keep silent when facing criticism is directly related to their organizational reputation. Only regulators with strong reputation do not need to talk, even when faced with criticism. In the case of the regulation of financial markets, for example, Marcussen (2009) has noted that “Central banks with a long history of policy effectiveness and credibility do not necessarily need to talk as much as central banks with low level of perceived credibility” (p. 382). This implies that regulators enjoying a strong reputation may be hardly threatened by ad hoc criticism, which can explain their choice of silence. Moreover,
central banks which enjoy strong reputation can afford to whisper (Eijffinger et al. 2000, 119), whereas regulators enjoying a relatively low level of reputation have to “shout”, for example, by announcing long term intentions when the future is highly cloudy (Grauwe 2006). This implies that highly-regarded regulators can afford to be relatively closed whereas those who are not need to be very open and talkative. In contrast, “If the credibility problem is large relative to the need for flexibility, optimal central bank institutions will be very open and transparent and vice versa” (Eijffinger et al. 2000, 231).

In a nutshell, our analysis so far anticipates that the strength of a regulator’s reputation – and by implication its reputation across functional areas – shapes its choice between silence and talk. In addition, we expect regulatory choice between silence and talk to vary in light of the nature of stakeholders and tasks. The rationale underlying this latter argument is two-fold. First, regulators may put a much larger weight on talking with certain types of audience, for example because they are more critical than others, or alternatively, they are better positioned to threaten the regulator’s reputation, turf, resources, and so on. And they may establish a dialogue with certain audiences over one set of concerns, and with other audiences over another set of concerns (Carpenter 2010b, 833). The multiplicity of audiences in their operating environments often motivates regulators to pursue disparate communicative strategies regarding issues which are visible to their audiences as compared to issues which are less visible, and regarding issues which are technical and obscure as opposed to issues which are clear-cut and easily-understood by the general public.

Second, a regulator’s communication with some audiences may involve informal talk, including negotiations behind closed doors to suppress expansion of conflict into the
public domain. Needless to say, some audiences are more likely than others to be offered the opportunity to participate in such highly confidential processes, and to actually agree to do so. Regulated firms may be inclined to take part in such negotiations, for example, when the issues involved are technical and of no direct interest to consumers (e.g., prudential regulation as opposed to fraud or bank charges), or when they wish to maintain good relations with the regulator. Regulators operating in the same sector (e.g., banking, insurance and securities) may tend to share this inclination, expecting that the regulator in question will reciprocate when requested. By contrast, the public and its representatives as well as those who lack political, professional and executive clout (e.g., journalists) may not be asked to join highly confidential negotiations.

In other words, thinking theoretically about regulatory talk requires recognition of the venue wherein talk is performed. In the politics of agenda setting, the regulator may be able to suppress audiences’ public criticism by choosing a non-public venue for further discussions and negotiations with them (Jones and Baumgartner 1993; Kingdon 1995). By undertaking negotiations behind closed doors, the regulator may be able to handle an audience and depoliticize an issue. Containing further expansion of conflict into the public arena and depoliticizing contention may be successful because some stakeholders – such as regulated firms - cannot afford a breakdown in their relationship with the regulator. In a more partisan venue, however, political parties are occupying all access points, and are best position to threaten the regulator with a loss of its turf, resources or both. As long as major regulatory errors are out of public sight, government departments and agencies as well as the regulated industry may be relatively easy to
handle whereas an attempt by the regulator to control politicians, consumers and the non-regulated industry may prove to be more challenging.

Using the intuition elaborated upon above, we examine the following three hypotheses:

*H1: A unified regulator is more likely to keep silent over issues regarding which it generally enjoys a strong reputation, and more likely to respond to opinions about functional areas with regards to which it has a generally weak reputation.*

*H2: A unified regulator is most likely to respond to opinions when media coverage intensity of the regulator is high.*

*H3: A unified regulator is more likely to keep publicly silent when it enjoys greater control over those who are voicing claims in the public domain, and over the venue of further negotiations with these sources of opinion.*

The rationale for H1 is that a unified regulator is more likely to keep silent in response to criticism regarding areas with regards to which it enjoys a relatively strong reputation, because *ad hoc* criticism does not pose a critical threat to its overall reputation. The rationale of H2 suggests that a unified regulator is more likely to respond when media coverage intensity is high, and criticism is therefore harder to depoliticize. The rationale of H3 is that a unified regulator is more likely to keep silent when it has alternative avenues for managing criticism or when the damage to the agency’s reputation is likely to be low, because: (i) the opinion source could be more easily persuaded to negotiate in
non-public venues (e.g., regulated firms and government officials), and (ii) the opinion source is member of a diffuse group that lacks political or executive clout (e.g., journalists and retail consumers). Ultimately, we hypothesize that reputational concerns create a responsive mechanism that produce communicative outcomes (strategic silence and regulatory talk) over and above the content of rules, structures or statutes. Our attention turns now to a brief description of the regulator under investigation.

The Israeli Supervisor of Banks: Institutional Background

Financial market regulation in Israel in undertaken by five agencies: the Supervisor of Banks, the Supervisor of Capital Markets and Savings, the Supervisor of Insurance, Israel Securities Authority, and Israel Antitrust Authority. Supervision of bank fees is entrusted with the Supervisor of Prices at the Ministry of Trade and Commerce on the basis of guidelines issued by the Supervisor of Banks. The Israeli Banking Supervision Department is located within the Bank of Israel, which is an independent central bank whose monetary policy is based on inflation targeting approach (i.e., the establishment of an inflation target as the primary goal of policy) and, during the period of investigation, on a single decision-maker institutional model (Fischer 2006). The Supervisor of Banks is appointed by the Governor of the Bank of Israel, who can theoretically choose to take over any of the authorities entrusted with the Supervisor of Banks (Banking Ordinance, 1941, clause 5).

The Supervisor’s mandate is based on several laws — the Banking Ordinance, 1941; the Banking (Licensing) Law, 1981; the Banking (Services to Consumers) Law,
1981; the Bank of Israel Law, 1954, Cheques without Cover Law, 1981, and the Law for Encouragement of Competition and Reduction of Conflicts of Interest in the Israeli Capital Markets, 2005 — and include issuing licenses to new banking corporations, purchasing a controlling interest in a bank or setting up bank branches; ensuring the stability of the banking system and of a bank where there has been mismanagement, and so on. The main tasks of all the aforementioned regulators, except the Israel Securities Authorities, have not been defined by law. Consequently, these regulators have defined their role in their annual reports (Ben-Bassat 2007, 24). The Supervisor of Bank perceives the maintenance of the banking system’s financial stability as its primary goal, hence its focus on banks’ assets (Ben-Bassat 2007, 22, 25). It conceives other goals, such as consumer protection and competition, as subordinate to banks’ financial stability.

Regarding the sources of the Supervisor of Banks’ reputation, of the aforementioned five regulators, the Supervisor of Banks enjoys a “near perfect” (external) managerial independence — which reduces the potential for political intervention — and it is ranked second (after the Israel Securities Authority) with respect to its relative wealth (Ben-Bassat 2007, 43). Being an integral part of the Bank of Israel is no less important. According to Maman and Rosenhek (2011, 2):

Over the course of an incremental process that began in the mid-1980s, the Bank of Israel has succeeded in positioning itself at a pivotal position in the political-economic field and within the state’s apparatus […] An important source of the Bank of Israel’s power has been its success in positioning itself in the field as an apolitical agency with the authoritative voice of expertise in economic matters, an
expertise which is based on consensual scientific knowledge whose veracity is taken for granted (p. 2).

Being institutionally located at the local-global interface, the bank was able to “instill and embed global logics” (Maman and Rosenhek 2011, 141), especially with regard to the soundness of the Israeli financial system. The fact that the Israeli economy emerged relatively unscathed from the global financial crisis (International Monetary Fund, 2011) reinforced the strong reputation for maintaining banks’ stability that the Bank of Israel and its Banking Supervision Department already enjoyed. However, the Supervisor’s reputation for maintaining the stability of banks has been attained at the expense of its reputation for encouragement of competition in this sector, as well as in the domain of “consumer protection” (as reflected in our findings). The Bank of Israel has in fact encouraged bank mergers in order to increase the stability of the banking system at the expense of inter-bank competition (Ben-Bassat 2007, 114; Yosha, Blei, and Yafeh 2007; Rotenberg 2002). Our attention turns now to the methodological section.

**Methodology**

To test the above hypotheses we constructed a database of opinions regarding the Israeli Supervisor of Banks. The aim of our database construction strategy was to produce a comprehensive list of opinions for the relevant years. To do so, we have collated all the articles mentioning the Supervisor, either in the title or body of the article, that were published in Globes – Israel’s only dedicated business broadsheet – between 1998 and mid 2009 (a total of 3849 articles). The first author and a research assistant read through the whole article population and selected all those articles which involved opinions –
whether positive or negative – about the Supervisor and its performance. Opinions were either those that a source made during an interview, or reports by journalists of an actor’s opinion made elsewhere (e.g., a public report, a Knesset committee etc.) Our assessment of what makes “an opinion” vs. “description” intentionally favored inclusion over exclusion of articles. This process resulted in a database of 524 articles involving one or more opinions, rather than mere description of facts or events. At a later stage, while coding each article, we have created a separate row for each opinion source or opinion matter, so that our final database includes 634 opinions or rows.

Each article was coded by a research assistant under close supervision of the second author (who herself coded 85% of the articles and 100% of those articles that the research assistant coded as involving Supervisor response). In unclear cases the second author consulted with the first author and together reached a decision. Finally, we have asked a different research assistant, who was not previously involved with the project, to independently code a sample of the data (n=118). The inter-coder reliability statistic (Krippendorf-Alpha) was above 0.7 for all relevant variables (ranging between 0.714 and 0.735), other than for our coding of the “regulatory functional area” (see below) where the reliability score was substantially lower than warranted (alpha=0.44). We think that the latter is not a reflection of the quality of our coding, but rather of the fact that the coding of this specific variable requires some expertise in financial regulation. Consequently, the second author, who specializes in financial regulation, verified 100% of the coding for this specific variable.
Our dependent variable is the Supervisor’s response. The focus of the analysis below is on the Supervisor’s responses vs. silence when a judgmental opinion is made regarding the institution. We did not code any citation of a Supervisor’s statements in an article as a “response,” but only such that is directly related to a specific opinion in the same article. The Supervisor responded to 122 opinions out of an overall 634 (19%). Hence, silence is the Supervisor’s predominant response. We count as responses both the Supervisor’s direct answer to a journalist query and journalists’ citations of the Supervisor’s response to audience opinions (e.g. the Supervisor’s response to a Member of Knesset during hearings at Knesset Committees). Since only 29 (24%) of the Supervisor’s responses were direct responses to journalist queries, whereas 93 (76%) were journalists’ second-hand reporting. In order to allow meaningful statistical analysis of variance in the Supervisor’s communicative strategies, we treat both types of responses under one category.

Regarding the independent variables, our analysis focuses on the effect of three key variables: regulatory functional areas, media salience and the source of opinion (its political clout, and the Supervisor’s ability to control the venue of negotiations). As to regulatory functional areas, we have coded each opinion as relating to one or more of the following functional areas: (i) prudential – opinions regarding the Supervisor’s capital adequacy requirements and its supervision of banks’ financial stability \( (n=213) \); (ii) consumer protection – opinions regarding the Supervisor’s regulation of banks’ services and sales to retail customers and investors \( (n=161) \); (iii) fraud – opinions regarding the Supervisor’s regulation of bank employees’ alleged fraudulent behavior \(^3\) \( (n=53) \) (iv) internal governance and control – opinions regarding the Supervisor’s regulation of...
banks’ internal controls and ownership structure (n=76); (v) competition – opinions regarding the Supervisor’s regulation of competition among banks and between the banking sector and other financial institutions (n=51); (vi) opinions regarding “other”, as well as indistinct, regulatory functions or actions (n=79). (In the analysis below, ‘competition’ and ‘other’ were combined into one category, because both lie outside of the Supervisor’s core mandate). During the initial coding process, we have refined our coding scheme to deal with possible overlaps between the Supervisor’s functional areas: e.g. how to deal with allegations of banks’ excessive lending to retail customers, which can potentially fall under both “prudential” and “consumer protection.”

Regarding media salience of the Supervisor, for each article we have computed the number of all other articles which were published about the Supervisor during the relevant month. These figures were drawn from our greater database of 3849 Globes articles, which mentioned the Supervisor. We test the impact of this variable both as a scale and as binary variable (below and over its median value). Regarding the source of opinion, for each opinion we have identified the source of opinion (“opinion source”) as follows (i) the journalist (n=219); (ii) financial firms (the Supervisor’s regulatees) and/or their representatives (n=138); (iii) an Executive of the Bank of Israel (when an executive of the Central Bank makes a statement with regards to the Supervisor) (n=30); (iv) politicians (ministers and members of the Knesset) (n=57); (v) experts (academics, financial analysts) (n=64), (v) consumers, retail investors and/or their representatives (n=29), (vi) other government departments and/or regulatory agencies (n=46), (vii) non-financial business and/or their representatives (n=29); (viii) other source category (n=22). We grouped these actors into four categories, as follows: (i) powerful and
**independent**: actors who are politically powerful or concentrated and therefore better placed for collective action, and over which the Supervisor has little control (politicians and non-financial business); (ii) **powerful and dependent**: actors who can be cajoled or coerced to participate in confidential informal negotiations (financial/regulated firms and government officials); (iii) **weak and independent**: actors who are members of diffuse groups, and consequently less capable of long-term collective action (retail consumers, analysts and other experts); (iv) **other actors**.

In addition to the above key independent variables, we are controlling for: the positive, negative or mixed nature of the source’s judgment (“source judgment”) (n=157, 422 and 54 respectively); and for the year in which the article was published (1998 to mid 2009) to account for change over time.

**Statistical Results**

To test hypothesis 1 we compare the Supervisor’s inclination to respond to individual instances of criticism regarding functional areas wherein it generally enjoys stronger or more positive reputation in comparison to areas regarding which it enjoys weaker reputation. As evident from Table 1, during the relevant research period, the Supervisor enjoyed an overall positive media assessment of its performance regarding prudential regulation (50%) in comparison with other functional areas. Consequently, hypothesis 1 predicts that all else being equal, the Supervisor will be inclined to abstain from responding to criticism regarding prudential regulation when compared with any other aspect of its mandate.
To test hypothesis 2, we analyze how the Supervisor’s tendency to respond varies by the relative salience of the issue, at the time when the opinion is made. And to test hypothesis 3 we compare the Supervisor’s response across the four aforementioned groups of opinion sources (powerful & independent; powerful & dependent; weak & independent, and other).

Table 2 presents the results of a series of univariate logistic regressions of the independent variables, as described above, on the Supervisor’s inclination to respond. As evident from this table, these variables (although not all their specific coefficients) are significant, and the coefficients’ directions are generally as predicted by hypotheses 1, 2 and 3. The supervisor is less inclined to respond to opinions regarding prudential regulation, and more inclined to respond to opinions regarding consumer protection [Odds Ratio (OR)=3.1] and fraud (OR=4.4). Media salience (binary) is also significant and its coefficient is in the expected direction, suggesting a higher propensity to respond at times when overall media coverage is intense (OR=1.5). It further suggests that the supervisor is disinclined to respond to allegations by “powerful and dependent” actors and by “weak and independent” actors when compared with actors who are both powerful and independent (OR=0.4 and 0.25 respectively).
In addition, and unsurprisingly, the univariate analysis suggests that the supervisor is inclined to respond to negative opinions (in comparison with positive and mixed opinions). There is also some variance by year.

The results of the multivariate binary logistic regression for the supervisor’s response, as presented in table 3, are broadly consistent with the above univariate results and with hypotheses 1 and 2. There is also partial support for hypothesis 3. The regression analysis suggests that the difference in the supervisor’s inclination to respond to opinions across functional areas is significant. The estimated Odds Ratios (ORs) suggest that, holding all else constant, the Supervisor is about 3 times more likely to respond to opinions regarding consumer protection, and 3.2 times more likely to respond to opinions regarding fraud - both compared with prudential regulation (the reference category). Hence the supervisor is inclined to respond to opinions regarding its performance of consumer protection and fraud regulation (where its reputation is relatively weak) when compared with prudential regulation (with regards to which it enjoys a stronger and more positive reputation). These findings are consistent with hypothesis 1. However, there is no statistically significant difference between the supervisor’s inclination to respond to opinions regarding prudential regulation, and regarding its regulation of firms’ internal governance & control and “other” regulatory functions.
We further find that there is a statistically significant difference (at p<0.001) between the Supervisor’s tendency to respond to opinions regarding consumer protection regulation and “other” regulatory functions (OR=0.2). (This finding is obtained when running precisely the same model with “consumer protection” as the reference category for “regulatory function” – not in table 1). This finding suggests that an additional micro-mechanism is in operation. The category “other” regards regulatory tasks, such as competition, which are not at the core of supervisor’s mandate (e.g. because competition is the core function of the Israeli Antitrust Authority). It further includes cases wherein the issue at stake was unclear and indistinct. It is likely to be the case that the supervisor is disinclined to respond to opinions on these matters, because it does not perceive them as central to its reputation.

In summary, consistent with hypothesis 1, the supervisor is inclined to respond to opinions regarding consumer protection and fraud when compared with prudential regulation. Also, consistent with a reputation-based explanation, the negative coefficient indicates that the supervisor is disinclined to respond to opinions regarding “other” regulatory functions, which are tangential to its reputation. Yet, we find no statistically significant tendency in the supervisor’s inclination to respond to opinions regarding internal governance & control.

In addition, and consistent with hypothesis 2, the effect of high vs. low salience is significant and in the expected direction. The Supervisor is about 2 times more likely to respond when overall media salience is high in comparison with low media salience.\(^4\)
Consistent with hypothesis 3, we find that the Supervisor is disinclined to respond to opinions by “weak and independent” opinion sources when compared with its inclination to respond to “powerful and independent” sources (OR=0.3). However, there is no support for our expectation that the Supervisor will be less inclined to publicly respond to opinions made by “powerful and dependent” sources.

Finally we find that the supervisor is 6 times more likely to respond to negative opinions in comparison with positive opinions. We also control for fixed-effects for individual years (the latter are included in the model, but not presented in table 3).

Conclusions

The power of regulatory agencies relates to their capacity to shape outcomes in areas within their jurisdiction. This power rests on their functions being widely valued by society at large and on their reputation for expertise, professionalism and other traits as perceived by their relevant audiences. Faced with conflicting judgment criteria held by external audiences, regulatory agencies may develop distinct action and communicative strategies in order to actively construct the way in which their audiences judge them. They may do so by striking a fine balance between regulatory silence and talk, and between regulatory action and words. As noted earlier, these are all important albeit little studied aspects of bureaucratic politics. In focusing on communicative dynamics, and specifically on the fine balance between regulatory silence and talk, we showcase what we feel should be among the frontiers of scholarly inquiry into the behavior of bureaucratic agencies. The broader challenge that scholars of bureaucratic politics face is to account for the factors that shape agencies’ responsiveness to some signals over others,
how different agencies respond to similar signals, how similar agencies respond to different signals, and why do agencies respond to signals in certain circumstances and not in others (Ceccoli 2004).

This paper has shown that reputational considerations shape the communication strategies of the Israeli Supervisor of Banks. It has demonstrated that this regulator is more likely to keep silent over prudential regulation — a functional area over which it enjoys a strong reputation — and more likely to respond to opinions about consumer protection and fraud regulation — functional areas with regards to which it has a generally weak reputation. It was further shown that this regulator is inclined to respond to opinions regarding its central functions – consumer protection – when compared with peripheral functions that are perceived as the core function of another agency – competition. In addition, it is most likely to respond to opinions when an issue is publicly salient and cannot be easily de-politicized. Thus, when controlling for issue salience, this regulator is inclined to respond to criticism targeted at central functions in relation to which its reputation is weak; and inclined to keep silent when facing opinions regarding core functions wherein it enjoys generally strong reputation or opinions in relation to peripheral functions. It was also shown that the Supervisor’s inclination to respond varies across audience groups depending on their political clout.

These findings provide support for a reputation and audience-based explanation (Carpenter 2001, 2010a) of regulatory communication. They suggest that reputational considerations are at the heart of government agencies’ decisions to keep silent and the apparent frequency and substance of their talk with their audiences. Moreover, this
This research contributes to existing literature on regulatory reputation as it shows that a regulator which enjoys strong reputation is clearly aware of those specific functional areas over which it enjoys a strong reputation in comparison to other functional areas. This organizational awareness determines the regulator’s “careful presentation of “self”” (Miller 2011, 473) to the variety of its audiences. This implies that regulatory behavior is not simply a response to audiences’ external signals nor an “automatic response to the [agency’s political] principal’s … incentives schemes” (Miller 2011, 473).

This research also contributes to the scarce research on public officials’ presentational strategies (Hood 2010) and regulatory communication (Yeung 2005, 2006, 2009) by highlighting patterns of regulatory silence. It challenges scholars dealing with responses of organizations to the “high pressure” regulatory regimes (e.g., Hood and Rothstein 2001) to look for variance in organizational response across an agency’s functional areas and opinion sources, rather than solely across policy domains. It further contributes to the literature on central bank communication which has so far focused exclusively on communication with financial markets. The findings support Blinder et al.’s (2008, 58) calls for attention shift of central banks communication towards communication with the general public across functional areas.

The most important caveat is that the Israeli supervisor of banks is a single case of a regulator characterized by a strong reputation, particularly in the context of prudential regulation. An obvious strength and opportunity of this case is that there is clear variance in this regulator’s reputation across functions, which allowed us to test our hypotheses on a relatively “clean” test case. At the same time, this raises the question of whether a
focused study on one agency is of any value for understanding other organizations, especially when the international regulatory arena in the field of banks supervision does offer a larger and homogenous population that one can generalize about. We contend that there is a value in studying a singular process as an exercise in hypotheses development (Gerring 2007). Future comparative studies addressing communicative dynamics of government agencies are therefore required. Future research in bureaucratic politics may examine regulatory silence and talk when agencies are confronted with genuine legislative threat from parliaments which involve a transfer of authority to another agency (e.g., Carpenter 2010b), as well as during organizational or systemic crises which significantly undermine regulatory reputation. The analysis presented here can be applied to other national regulators operating under other circumstances in order to investigate similar hypotheses.
References


Maor, Moshe and Raanan Sulitzeanu-Kenan. forthcoming. The Effect of Salient Reputational Threats on the Pace of FDA Enforcement, *Governance*.


Table 1

<table>
<thead>
<tr>
<th>Regulatory issue categories</th>
<th>prudential</th>
<th>consumer protection</th>
<th>fraud</th>
<th>Internal governance &amp; control</th>
<th>competition</th>
<th>Other</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>negative</td>
<td>positive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>positive-negative tone</td>
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</tr>
<tr>
<td>Total</td>
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<td>211</td>
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<td></td>
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<td>629</td>
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<tr>
<td></td>
<td>66.5%</td>
<td>33.5%</td>
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<td>100.0%</td>
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</table>

Pearson Chi-Square = 46.135; p<0.001
Table 2
Univariate logistic regression for Supervisor’s Response

<table>
<thead>
<tr>
<th>Regulatory functional area ***</th>
<th>B</th>
<th>OR</th>
<th>SE</th>
<th>N missing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudential</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Consumer protection</td>
<td>1.117***</td>
<td>3.055</td>
<td>0.271</td>
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</tr>
<tr>
<td>Fraud</td>
<td>1.472***</td>
<td>4.359</td>
<td>0.352</td>
<td></td>
</tr>
<tr>
<td>Internal governance &amp; control</td>
<td>0.485</td>
<td>1.624</td>
<td>0.362</td>
<td></td>
</tr>
<tr>
<td>Other regulatory function</td>
<td>-0.224</td>
<td>0.799</td>
<td>0.360</td>
<td></td>
</tr>
<tr>
<td>Salience (Scale)</td>
<td>0.008</td>
<td>1.008</td>
<td>0.005</td>
<td>0</td>
</tr>
<tr>
<td>Salience (binary) (1 = above sample median)</td>
<td>0.427*</td>
<td>1.533</td>
<td>0.204</td>
<td>0</td>
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<tr>
<td>Nature of Source judgment ***</td>
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<tr>
<td>Negative</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Positive</td>
<td>-1.997***</td>
<td>0.136</td>
<td>0.402</td>
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<tr>
<td>Mixed</td>
<td>-1.012*</td>
<td>0.363</td>
<td>0.447</td>
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<tr>
<td>Opinion source***</td>
<td></td>
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<td></td>
<td>8</td>
</tr>
<tr>
<td>Powerful and independent</td>
<td></td>
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<td>Weak and independent</td>
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<td>-0.393</td>
<td>0.675</td>
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<tr>
<td>Year of article **</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1998</td>
<td></td>
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</tr>
<tr>
<td>1999</td>
<td>0.223</td>
<td>1.250</td>
<td>0.570</td>
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<td>2000</td>
<td>0.300</td>
<td>1.350</td>
<td>0.556</td>
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<tr>
<td>Year</td>
<td>Coefficient</td>
<td>Standard Error</td>
<td>p Value</td>
<td></td>
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<tr>
<td>--------</td>
<td>-------------</td>
<td>----------------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>-0.726</td>
<td>0.484</td>
<td>0.547</td>
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<tr>
<td>2002</td>
<td>0.107</td>
<td>1.113</td>
<td>0.476</td>
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<tr>
<td>2003</td>
<td>0.297</td>
<td>1.346</td>
<td>0.455</td>
<td></td>
</tr>
<tr>
<td>2004 + 2007²</td>
<td>-1.482*</td>
<td>0.227</td>
<td>0.651</td>
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<tr>
<td>2005</td>
<td>-0.648</td>
<td>0.523</td>
<td>0.590</td>
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<tr>
<td>2006</td>
<td>0.598</td>
<td>1.818</td>
<td>0.501</td>
<td></td>
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<tr>
<td>2008</td>
<td>-0.028</td>
<td>0.972</td>
<td>0.582</td>
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<tr>
<td>2009</td>
<td>-0.710</td>
<td>0.492</td>
<td>0.547</td>
<td></td>
</tr>
</tbody>
</table>

***p<0.001; **p<0.01; *p<0.05

1- The coefficient chi-square value here pertains to a model that includes the relevant independent variable and a constant value.

2- It is impossible to get a meaningful coefficient and standard error for 2007, because there were no Bank of Israel responses to opinions and therefore no variance on the dependent variable. To bypass this problem we have integrated 2007 with 2004, which had the second lowest percentage of Supervisor responses.
Table 3  
**Multivariate Binary Logistic regression of the regulator’s tendency to respond**

<table>
<thead>
<tr>
<th>Model 1</th>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>B</td>
<td>OR</td>
<td>SE</td>
</tr>
<tr>
<td>Source judgment –</td>
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<td></td>
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<tr>
<td>negative (ref)</td>
<td>Ref</td>
<td></td>
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<tr>
<td>Positive</td>
<td>-1.857***</td>
<td>0.156</td>
<td>0.430</td>
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<tr>
<td>mixed</td>
<td>-0.821</td>
<td>0.440</td>
<td>0.483</td>
</tr>
<tr>
<td>Regulatory function –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prudential</td>
<td>Ref</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer protection</td>
<td>1.094**</td>
<td>2.985</td>
<td>0.341</td>
</tr>
<tr>
<td>Fraud</td>
<td>1.168*</td>
<td>3.217</td>
<td>0.451</td>
</tr>
<tr>
<td>Internal governance &amp; control</td>
<td>0.582</td>
<td>1.789</td>
<td>0.440</td>
</tr>
<tr>
<td>Other</td>
<td>-0.543</td>
<td>0.581</td>
<td>0.396</td>
</tr>
<tr>
<td>Salience (ref=under sample median value)</td>
<td>0.653*</td>
<td>1.921</td>
<td>0.292</td>
</tr>
<tr>
<td>Opinion Source –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Powerful and independent</td>
<td>Ref</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Powerful and dependent</td>
<td>-0.502</td>
<td>0.605</td>
<td>0.330</td>
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<tr>
<td>Weak and independent</td>
<td>-1.176***</td>
<td>0.308</td>
<td>0.320</td>
</tr>
<tr>
<td>Other</td>
<td>0.466</td>
<td>1.594</td>
<td>0.760</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.840</td>
<td>0.563</td>
<td>0.432</td>
</tr>
</tbody>
</table>

N: 626  
Missing: 8  
Likelihood Ratio Test/ Model Chi-Square: 113.622
Hosmer Model fitness Test

Chi-square = 6.157

df = 8

P = 0.630

***p<0.001; **p<0.01; *p<0.05

(Fixed effects for years are included, but not presented, in the models)
Notes

1 We thank Mike Ting for raising this point.

2 This definition is based on Ruef and Scott (1998), and Carpenter (2001; 2010a).

3 Rather than construct our own categorization of “fraud,” our focus is on claims that explicitly use this term.

4 As a scale variable, salience does not have a significant effect on the dependent variable.